

**CANTON CITY SCHOOL DISTRICT  
STARK COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2006**



**Mary Taylor, CPA**  
Auditor of State



**CANTON CITY SCHOOL DISTRICT  
STARK COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Canton City School District  
Stark County  
617 McKinley Avenue SW  
Canton, Ohio 44707

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Canton City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2006, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Canton City School District, Stark County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the District implemented *Governmental Accounting Standards Board* Statement No. 47, adjusted amounts due from the State of Ohio, and adjusted capital assets, resulting in the restatement of fund balance, capital assets and net assets as of June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2007, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule 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 Federal Awards Receipts and Expenditure Schedule 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

March 9, 2007

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The management's discussion and analysis of 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, 2006. 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 notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets decreased \$3.709 million. Net assets of governmental activities decreased \$4.517 million, which represents a 2.85% decrease from 2005 (as restated). Net assets of business-type activities increased \$.808 million or 28.91% from 2005.
- General revenues for governmental activities, accounted for \$101.334 million in revenue or 80.30% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$24.859 million or 19.70% of total governmental activities revenues of \$126.193 million.
- The District had \$130.710 million in expenses related to governmental activities; only \$24.859 million of these expenses were offset by program specific charges for services or grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$101.334 million were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund and classroom facilities fund. The general fund had \$96.536 million in revenues and \$94.044 million in expenditures and other financing uses. The general fund's fund balance increased \$2.466 million from a deficit of \$11.000 million to a deficit of \$8.534 million.
- The debt service fund had \$4.731 million in revenues and \$4.138 million in expenditures. The debt service fund's fund balance increased \$.593 million from \$8.102 million to \$8.695 million.
- The classroom facilities fund had \$4.998 million in revenues and \$26.701 million in expenditures. The classroom facilities fund's fund balance decreased \$21.703 million from \$47.836 million to \$26.133 million.
- The District's two nonmajor enterprise funds are the food service fund and adult education fund. The food service fund had \$5.321 million in revenues and \$4.439 million in expenses. The food services fund net assets increased \$.882 million from \$1.749 million to \$2.631 million.
- The District's other nonmajor enterprise fund is the adult education fund. The adult education fund had \$1.421 million in revenues and \$1.495 million in expenses. The adult education fund net assets decreased \$.074 million from \$1.046 million to \$.972 million.

**Using the Basic Financial Statements (BFS)**

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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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, debt service fund and classroom facilities fund are by far the most significant funds, and the only governmental funds reported as major funds.

**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 2006?" 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 takes 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 District is divided into two distinct kinds of activities:

Governmental Activities - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's adult education programs and food service operations are reported as business-type activities.

The District's statement of net assets and statement of activities can be found on pages 15-18 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 10. 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, debt service fund and classroom facilities fund.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**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* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general governmental 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* are reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 19-24 of this report.

**Proprietary Funds**

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole. The basic proprietary fund financial statements can be found on pages 25-28 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, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 29 and 30. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**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 31-68 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

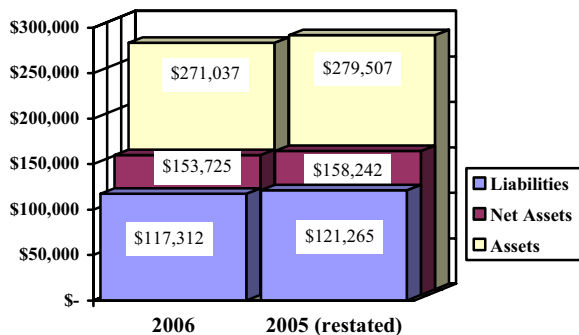
**The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole. Certain amounts for 2005 have been restated as described in Note 3.B. to the financial statements. The table below provides a summary of the District's net assets for 2006 and 2005.

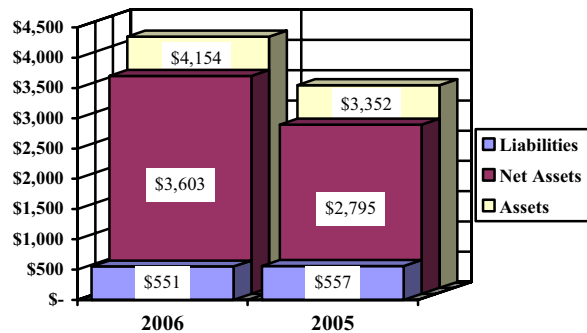
	<b>Net Assets (Amounts in 000's)</b>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2006	Restated 2005	2006	2005	2006	Restated 2005
<b><u>Assets</u></b>						
Current assets	\$ 87,960	\$ 116,589	\$ 3,924	\$ 3,088	\$ 91,884	\$ 119,677
Restricted assets	5,472	4,613	-	-	5,472	4,613
Capital assets	177,605	158,305	230	264	177,835	158,569
Total assets	<u>271,037</u>	<u>279,507</u>	<u>4,154</u>	<u>3,352</u>	<u>275,191</u>	<u>282,859</u>
<b><u>Liabilities</u></b>						
Current liabilities	51,240	53,073	396	386	51,636	53,459
Long-term liabilities	66,072	68,192	155	171	66,227	68,363
Total liabilities	<u>117,312</u>	<u>121,265</u>	<u>551</u>	<u>557</u>	<u>117,863</u>	<u>121,822</u>
<b><u>Net Assets</u></b>						
Invested in capital assets, net of debt	152,511	149,116	230	264	152,741	149,380
Restricted	13,371	30,061	-	-	13,371	30,061
Unrestricted	(12,157)	(20,935)	3,373	2,531	(8,784)	(18,404)
Total net assets	<u>\$ 153,725</u>	<u>\$ 158,242</u>	<u>\$ 3,603</u>	<u>\$ 2,795</u>	<u>\$ 157,328</u>	<u>\$ 161,037</u>

Total net assets of the District decreased by \$3.709 million, governmental activities net assets decreased \$4.517 million and business-type activities net assets increased \$.808 million. Total assets of the District's governmental activities decreased \$8.470 million from June 30, 2005.

**Governmental – Net Assets (Amounts in 000's)**



**Business-Type – Net Assets (Amounts in 000's)**



The table below shows the changes in net assets for fiscal year 2006 and 2005. The June 30, 2004 net asset balances of the governmental activities have been increased by \$9.428 million and 2005 regular instruction expense has been increased by \$1.204 million to reflect the prior period adjustments as described in Note 3.B. to the financial statements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**Change in Net Assets (Amounts in 000's)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>Restated 2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>Restated 2005</u>
<b>Revenues</b>						
Program revenues:						
Charges for services and sales	\$ 2,811	\$ 2,887	\$ 1,663	\$ 1,633	\$ 4,474	\$ 4,520
Operating grants and contributions	21,919	25,911	5,035	4,043	26,954	29,954
Capital grants and contributions	129	631	-	-	129	631
General revenues:						
Property taxes	37,692	32,431	-	-	37,692	32,431
Grants and entitlements	60,565	62,406	-	-	60,565	62,406
Investment earnings	2,277	1,787	41	27	2,318	1,814
Other	800	710	3	9	803	719
<b>Total revenues</b>	<b>126,193</b>	<b>126,763</b>	<b>6,742</b>	<b>5,712</b>	<b>132,935</b>	<b>132,475</b>
Program expenses:						
Instruction:						
Regular	44,553	46,768	-	-	44,553	46,768
Special	16,492	15,645	-	-	16,492	15,645
Vocational	1,712	1,105	-	-	1,712	1,105
Adult/continuing	725	755	-	-	725	755
Other	10,652	9,138	-	-	10,652	9,138
Support services:						
Pupil	8,622	8,840	-	-	8,622	8,840
Instructional staff	7,791	7,976	-	-	7,791	7,976
Board of Education	29	13	-	-	29	13
Administration	9,092	8,680	-	-	9,092	8,680
Fiscal	1,595	1,441	-	-	1,595	1,441
Business	641	629	-	-	641	629
Operations and maintenance	15,807	12,487	-	-	15,807	12,487
Pupil transportation	3,047	2,963	-	-	3,047	2,963
Central	3,083	3,080	-	-	3,083	3,080
Operation of non-instructional services	1,827	1,551	-	-	1,827	1,551
Extracurricular activities	2,378	2,163	-	-	2,378	2,163
Intergovernmental	448	468	-	-	448	468
Interest and fiscal charges	2,216	1,473	-	-	2,216	1,473
Food service	-	-	4,439	4,283	4,439	4,283
Adult education	-	-	1,495	1,507	1,495	1,507
<b>Total expenses</b>	<b>130,710</b>	<b>125,175</b>	<b>5,934</b>	<b>5,790</b>	<b>136,644</b>	<b>130,965</b>
Changes in net assets	(4,517)	1,588	808	(78)	(3,709)	1,510
Net assets at beginning of year (restated)	158,242	156,654	2,795	2,873	161,037	159,527
<b>Net assets at end of year</b>	<b>\$ 153,725</b>	<b>\$ 158,242</b>	<b>\$ 3,603</b>	<b>\$ 2,795</b>	<b>\$ 157,328</b>	<b>\$ 161,037</b>

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

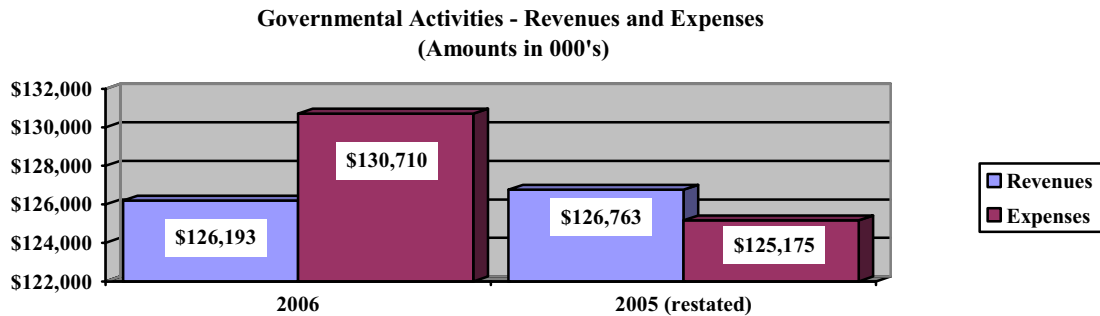
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Governmental Activities**

The Net assets of the District's governmental activities decreased by \$4.517 million. Total governmental expenses of \$130.710 million were offset by program revenues of \$24.859 million and general revenues of \$101.334 million. Program revenues supported 19.02% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 77.86% of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.



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 for 2006 and 2005. That is, it identifies the cost of these services supported by tax revenue and restricted State grants and entitlements. The regular instruction total cost of service and net cost of service has been restated by \$1.204 million to reflect the prior period adjustments described in Note 3.B. to the financial statements.

**Governmental Activities**  
(Amounts in 000's)

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Restated Total Cost of Services <u>2005</u>	Restated Net Cost of Services <u>2005</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 44,553	\$ 35,493	\$ 46,768	\$ 37,337
Special	16,492	12,591	15,645	9,571
Vocational	1,712	1,648	1,105	1,105
Adult/continuing	725	(16)	755	16
Other	10,652	9,919	9,138	9,138

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

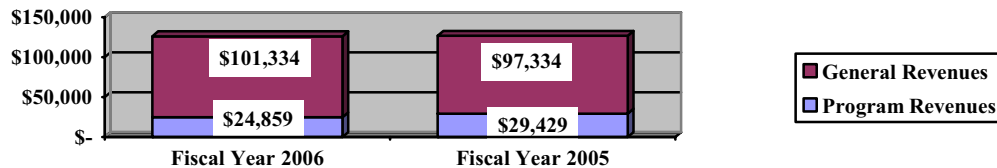
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Restated Total Cost of Services <u>2005</u>	Restated Net Cost of Services <u>2005</u>
Support services:				
Pupil	8,622	6,295	8,840	5,993
Instructional staff	7,791	3,785	7,976	1,906
Board of Education	29	29	13	13
Administration	9,092	8,163	8,680	7,623
Fiscal	1,595	1,457	1,441	877
Business	641	641	629	629
Operations and maintenance	15,807	14,887	12,487	11,757
Pupil transportation	3,047	2,904	2,963	2,795
Central	3,083	2,862	3,080	2,803
Operation of non-instructional services	1,827	1,262	1,551	1,111
Extracurricular activities	2,378	1,697	2,163	1,586
Intergovernmental	448	18	468	13
Interest and fiscal charges	2,216	2,216	1,473	1,473
 Total expenses	 <u>\$ 130,710</u>	 <u>\$ 105,851</u>	 <u>\$ 125,175</u>	 <u>\$ 95,746</u>

The dependence upon tax revenues during fiscal year 2006 for governmental activities is apparent, as 80.44% of 2006 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 80.98% in 2006. 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 2006 and 2005.

**Governmental Activities - General and Program Revenues  
(Amounts in 000's)**



**Business-Type Activities**

Business-type activities include adult education and the food service operation. These programs had revenues of \$6.742 million and expenses of \$5.934 million for fiscal year 2006. During fiscal year 2006, the District was taking steps to increase revenues. The District's business activities receive no support from tax revenues.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 19) reported a combined fund balance of \$29.088 million, which is below last year's total of \$46.464 million. The District restated the general fund balance as described in Note 3.A. to the financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005 (amounts in 000's).

	Fund Balance <u>June 30, 2006</u>	Restated Fund Balance <u>June 30, 2005</u>	Increase <u>(Decrease)</u>
General	\$ (8,534)	\$ (11,000)	\$ 2,466
Debt Service	8,695	8,102	593
Classroom Facilities	26,133	47,836	(21,703)
Other Governmental	<u>2,794</u>	<u>1,526</u>	<u>1,268</u>
Total	<u>\$ 29,088</u>	<u>\$ 46,464</u>	<u>\$ (17,376)</u>

**General Fund**

The District's general fund balance increased by \$2.466 million, due to increasing revenues and increased expenditures. The table below assists in illustrating the financial activities and fund balance of the general fund (amounts in 000's).

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 32,830	\$ 28,041	\$ 4,789	17.08 %
Interest earnings	1,006	477	529	110.90 %
Intergovernmental	60,274	61,929	(1,655)	(2.67) %
Other revenues	<u>2,426</u>	<u>2,426</u>	-	- %
Total	<u>\$ 96,536</u>	<u>\$ 92,873</u>	<u>\$ 3,663</u>	3.94 %
<b><u>Expenditures</u></b>				
Instruction	\$ 57,408	\$ 56,714	\$ 694	1.22 %
Support services	34,009	33,244	765	2.30 %
Operation of non-instructional services	413	410	3	0.73 %
Extracurricular activities	1,335	1,328	7	0.53 %
Facilities acquisition and construction	296	331	(35)	(10.57) %
Intergovernmental pass through	10	-	10	100.00 %
Debt Service	<u>288</u>	<u>290</u>	<u>(2)</u>	<u>(0.69) %</u>
Total	<u>\$ 93,759</u>	<u>\$ 92,317</u>	<u>\$ 1,442</u>	1.56 %

The increase in investment income is due to increased interest rates by the Federal Reserve Bank throughout the year. Tax revenue also increased primarily due to an increase in the amount of taxes available for advance by the District at fiscal year-end. This amount can vary depending on when the tax bills are sent. All other revenue remained comparable to 2005. Instruction expenditures increased 1.22% and represented the largest expenditure item of the District.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**Debt Service Fund**

The District's debt service fund balance increased by \$.593 million, due to an increase in tax revenue during 2006. The table that follows assists in illustrating the financial activities and fund balance of the debt service fund (amounts in 000's).

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 4,376	\$ 3,506	\$ 870	24.81 %
Interest earnings	7	-	7	100.00 %
Intergovernmental	348	329	19	5.78 %
Total	<u>\$ 4,731</u>	<u>\$ 3,835</u>	<u>\$ 896</u>	23.36 %
<b><u>Expenditures</u></b>				
Debt Service	\$ 4,138	\$ 2,468	\$ 1,670	67.67 %
Total	<u>\$ 4,138</u>	<u>\$ 2,468</u>	<u>\$ 1,670</u>	67.67 %

**Classroom Facilities Fund**

The District's classroom facilities fund balance decreased \$21.703 million. The table that follows assists in illustrating the financial activities and fund balance of the classroom facilities fund (amounts in 000's).

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>				
Interest earnings	\$ 1,232	\$ 1,261	\$ (29)	(2.29) %
Intergovernmental	3,766	17,467	(13,701)	(78.44) %
Total	<u>\$ 4,998</u>	<u>\$ 18,728</u>	<u>\$ (13,730)</u>	(73.31) %
<b><u>Expenditures</u></b>				
Facilities acquisition and construction	\$ 26,701	\$ 25,539	\$ 1,162	4.55 %
Total	<u>\$ 26,701</u>	<u>\$ 25,539</u>	<u>\$ 1,162</u>	4.55 %

Intergovernmental revenue decreased \$13.701 million from the prior year. This decrease is attributed to a decrease in the State share of funding under the Ohio Schools Facilities grants. Expenditures for the building projects increased in 2006 versus 2005. The decrease in investment income is due fluctuations in the fair market value of applicable investments. Actual interest received on a cash basis during fiscal year 2006 was \$1.449 million.

**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 year 2006, the District amended its general fund budget numerous times, none significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

For the general fund, final budgeted revenues and other financing sources were \$96.053 million, below original budget estimates of \$96.857 million. The actual revenues and other financing sources were \$101.712 million, which was \$5.659 million higher than the final budgeted revenues. The variance between the original budgeted revenue, final budgeted revenues and actual revenues is in the area of advances which are other financing sources that are not required to be budgeted.

General fund original appropriations and other financing uses of \$96.987 million were increased to \$97.077 million in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$101.587 million, which was \$4.510 million more than final budgeted appropriations, primarily due to overall increases among the various expenditure line items including instructional activities. The general fund had advances out and advances in of \$6.010 million and \$5.279 million, respectively. Advances in and out are not required to be budgeted. Advances are used to cover costs in specific funds where revenues are not received by June 30. On a GAAP basis, advances outstanding at year-end are recorded as receivables and payables in the respective funds.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2006, the District had \$177.835 million invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress (CIP). Of this total, \$177.605 million was reported in governmental activities and \$.230 million was reported in business-type activities.

The balances of the governmental activities capital assets at June 30, 2005 have been restated as described in Note 3.B. to the financial statements to reflect proper building values. The following table shows fiscal year 2006 balances compared to 2005:

**Capital Assets at June 30 (Net of Depreciation)  
(Amounts in 000's)**

	Governmental Activities		Business-Type Activities		Total	
	2006	Restated 2005	2006	2005	2006	Restated 2005
Land	\$ 17,315	\$ 17,315	\$ -	\$ -	\$ 17,315	\$ 17,315
Land improvements	3,430	3,313	-	-	3,430	3,313
Buildings and improvements	113,852	106,920	-	-	113,852	106,920
Furniture and equipment	2,146	2,533	230	264	2,376	2,797
Vehicles	768	521	-	-	768	521
Construction in progress	40,094	27,703	-	-	40,094	27,703
Total	\$ 177,605	\$ 158,305	\$ 230	\$ 264	\$ 177,835	\$ 158,569

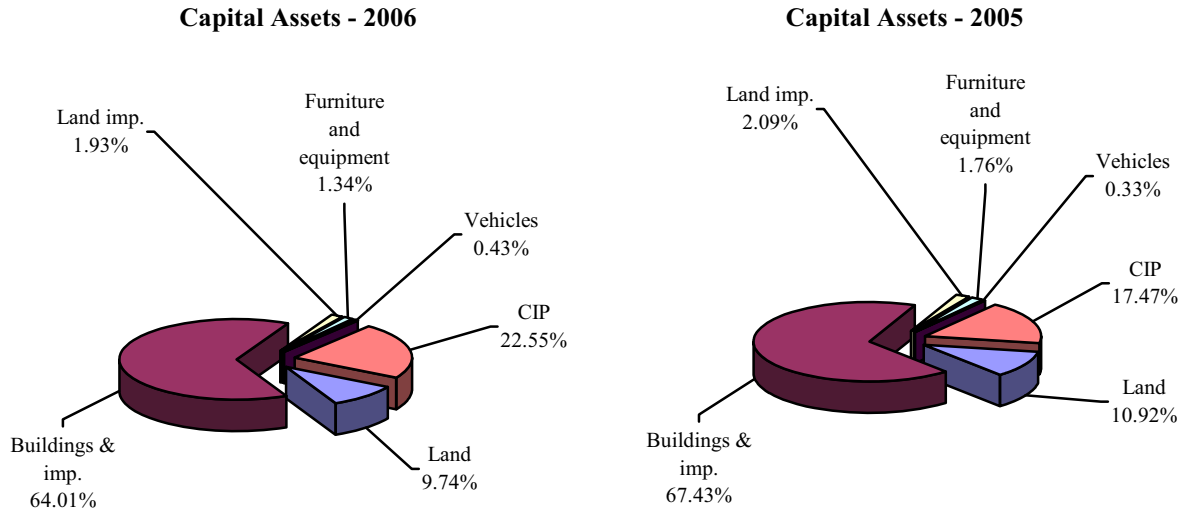
Total additions to governmental activities capital assets for 2006 were \$24.062 million. Governmental activities depreciation expense for fiscal year 2006 was \$4.761 million. Overall, governmental activities capital assets of the District increased \$19.300 million.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The following graphs show the breakdown of total capital assets by category for 2006 and 2005.



See Note 8 to the basic financial statements for additional information on the District's capital assets.

**Debt Administration**

At June 30, 2006 the District had \$54.212 million in general obligation bonds, notes and capital lease obligations outstanding. Of this total, \$2.186 million is due within one year and \$52.026 million is due within greater than one year. The following table summarizes the bonds, notes and leases outstanding.

**Outstanding Debt, at Year End  
(Amounts in 000's)**

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
General obligation bonds:		
Construction and renovation	\$ 45,655	\$ 46,371
Notes payable	7,280	8,520
Capital lease obligation	<u>1,277</u>	<u>670</u>
Total	<u>\$ 54,212</u>	<u>\$ 55,561</u>

See Note 10 to the basic financial statements for additional information on the District's debt administration.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Current Financial Related Activities**

Declining enrollment continues to be the District's number one problem. Canton City Schools lost another 151 pupils in the 2005-2006 school year. The main reasons for this appear to be students switching to charter schools and people moving out of the District. This is the seventh straight year that enrollment has declined. The total number of students lost in those seven years is approximately 2,250. The District receives \$5,403 per pupil in the current state funding formula.

The number two problem is that the State of Ohio continues to fund schools well below historical levels. The state's financial problems have had a very negative effect on school districts throughout Ohio. Unless the unconstitutional state funding system is fixed, the District will be forced to continue with budget cuts and layoffs as they have for the past four years (fiscal years 2004, 2005, 2006 and 2007). Budget cuts have been reflected in the fiscal year 2007 budget.

The District did pass a 7.9 mill operating levy on March 2, 2004. This levy increased revenues by \$6.8 million per year beginning January 1, 2005. However, due to the District's cash flow situation the District borrowed \$3.4 million in June of 2004 in anticipation of these future collections. The note will be repaid over a five year period.

The \$176 million school facility projects are proceeding on time and on budget. The Ohio School Facilities Commission (OSFC) has recently raised some concerns about the District's declining enrollment. The District however is well aware of the problem and would prefer to continue with the new buildings as scheduled and deal with the declining enrollment issue by closing older buildings. The District's legal counsel believes that there is no legal basis for the OSFC to halt any of the planned construction; however, the District and the OSFC have agreed not to renovate the Souers Middle School as originally planned, which will reduce the overall project under the OSFC by approximately \$8 million.

**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. Tim Pickana, Treasurer, Canton City School District, 617 McKinley Avenue SW, Canton, Ohio 44707.



**CANTON CITY SCHOOL DISTRICT**  
**STARK COUNTY, OHIO**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**  
**(AMOUNTS IN 000's)**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and investments . . . . .	\$ 42,196	\$ 2,654	\$ 44,850
Cash in segregated accounts . . . . .	1,044	-	1,044
Receivables:			
Taxes . . . . .	38,912	-	38,912
Accounts . . . . .	18	9	27
Intergovernmental . . . . .	4,428	1,206	5,634
Accrued interest . . . . .	463	-	463
Due from component units . . . . .	206	-	206
Loans . . . . .	27	-	27
Prepayments . . . . .	75	-	75
Unamortized bond and note issue costs . . . . .	422	-	422
Materials and supplies inventory . . . . .	169	55	224
Restricted assets:			
Equity in pooled cash and investments . . . . .	5,472	-	5,472
Capital assets:			
Land and construction in progress . . . . .	57,409	-	57,409
Depreciable capital assets, net . . . . .	120,196	230	120,426
Total capital assets, net . . . . .	177,605	230	177,835
Total assets . . . . .	271,037	4,154	275,191
<b>Liabilities:</b>			
Accounts payable . . . . .	942	15	957
Contracts payable . . . . .	2,256	-	2,256
Retainage payable . . . . .	1,044	-	1,044
Accrued wages and benefits . . . . .	12,199	164	12,363
Pension obligation payable . . . . .	2,554	194	2,748
Intergovernmental payable . . . . .	854	23	877
Due to primary government . . . . .	-	-	-
Deferred revenue . . . . .	30,726	-	30,726
Accrued interest payable . . . . .	162	-	162
Claims payable . . . . .	503	-	503
Long-term liabilities:			
Due within one year . . . . .	5,315	45	5,360
Due within more than one year . . . . .	60,757	110	60,867
Total liabilities . . . . .	117,312	551	117,863
<b>Net Assets:</b>			
Invested in capital assets, net of related debt . . . . .	152,511	230	152,741
Restricted for:			
Capital projects . . . . .	305	-	305
Debt service . . . . .	8,993	-	8,993
Classroom facilities maintenance . . . . .	1,246	-	1,246
Locally funded programs . . . . .	1,141	-	1,141
State funded programs . . . . .	309	-	309
Federally funded programs . . . . .	1,157	-	1,157
Other purposes . . . . .	220	-	220
Unrestricted (deficit) . . . . .	(12,157)	3,373	(8,784)
Total net assets . . . . .	\$ 153,725	\$ 3,603	\$ 157,328

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Component Units**

<b>Canton City Schools Digital Academy</b>	<b>Canton Academy Community School</b>	<b>Canton Arts Academy Community School</b>
\$ 302	\$ 15	\$ 126
-	-	-
-	-	-
-	-	-
-	166	61
-	-	-
-	-	-
-	2	-
-	-	-
-	-	-
-	-	-
178	171	102
178	171	102
480	354	289
3	14	15
-	-	-
-	-	-
-	-	-
-	-	-
8	5	-
38	90	78
-	-	-
-	-	-
-	-	-
-	-	-
49	109	93
178	171	102
-	-	-
-	-	-
-	-	9
2	-	3
-	154	71
-	-	-
251	(80)	11
\$ 431	\$ 245	\$ 196

**CANTON CITY SCHOOL DISTRICT**  
**STARK COUNTY, OHIO**  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(AMOUNTS IN 000's)

	<b>Program Revenues</b>			
	<b>Expenses</b>	<b>Charges for Services and Sales</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 44,553	\$ 1,397	\$ 7,663	\$ -
Special . . . . .	16,492	-	3,901	-
Vocational . . . . .	1,712	38	26	-
Adult/continuing . . . . .	725	12	729	-
Other . . . . .	10,652	-	733	-
Support services:				
Pupil. . . . .	8,622	173	2,154	-
Instructional staff . . . . .	7,791	12	3,994	-
Board of education . . . . .	29	-	-	-
Administration. . . . .	9,092	58	871	-
Fiscal. . . . .	1,595	-	138	-
Business. . . . .	641	-	-	-
Operations and maintenance . . . . .	15,807	228	658	34
Pupil transportation. . . . .	3,047	101	42	-
Central . . . . .	3,083	3	164	54
Operation of non-instructional services . . . . .	1,827	138	386	41
Extracurricular activities. . . . .	2,378	651	30	-
Intergovernmental . . . . .	448	-	430	-
Interest and fiscal charges . . . . .	2,216	-	-	-
Total governmental activities . . . . .	<u>130,710</u>	<u>2,811</u>	<u>21,919</u>	<u>129</u>
<b>Business-type activities:</b>				
Food service. . . . .	4,439	656	4,630	-
Adult education. . . . .	1,495	1,007	405	-
Total business-type activities . . . . .	<u>5,934</u>	<u>1,663</u>	<u>5,035</u>	<u>-</u>
Totals . . . . .	<u>\$ 136,644</u>	<u>\$ 4,474</u>	<u>\$ 26,954</u>	<u>\$ 129</u>
<b>Component Units:</b>				
Canton City Schools Digital Academy . . . . .	\$ 592	\$ -	\$ 836	\$ -
Canton Academy Community School . . . . .	742	-	489	9
Canton Arts Academy Community School. . . . .	576	3	528	-
Totals . . . . .	<u>\$ 1,910</u>	<u>\$ 3</u>	<u>\$ 1,853</u>	<u>\$ 9</u>

**General Revenues:**

Property taxes levied for:	
General purposes . . . . .	
Debt service. . . . .	
Capital outlay. . . . .	
Facilities maintenance. . . . .	
Grants and entitlements not restricted to specific programs . . . . .	
Investment earnings . . . . .	
Miscellaneous . . . . .	
Total general revenues . . . . .	
Change in net assets . . . . .	
<b>Net assets at beginning of year (restated) . . . . .</b>	
<b>Net assets at end of year . . . . .</b>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue  
and Changes in Net Assets**

Primary Government			Component Units		
Governmental Activities	Business-Type Activities	Total	Canton City Schools Digital Academy	Canton Academy Community School	Canton Arts Academy Community School
\$ (35,493)	\$ -	\$ (35,493)	\$ -	\$ -	\$ -
(12,591)	-	(12,591)	-	-	-
(1,648)	-	(1,648)	-	-	-
16	-	16	-	-	-
(9,919)	-	(9,919)	-	-	-
(6,295)	-	(6,295)	-	-	-
(3,785)	-	(3,785)	-	-	-
(29)	-	(29)	-	-	-
(8,163)	-	(8,163)	-	-	-
(1,457)	-	(1,457)	-	-	-
(641)	-	(641)	-	-	-
(14,887)	-	(14,887)	-	-	-
(2,904)	-	(2,904)	-	-	-
(2,862)	-	(2,862)	-	-	-
(1,262)	-	(1,262)	-	-	-
(1,697)	-	(1,697)	-	-	-
(18)	-	(18)	-	-	-
(2,216)	-	(2,216)	-	-	-
<u>(105,851)</u>	<u>-</u>	<u>(105,851)</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	847	847	-	-	-
-	(83)	(83)	-	-	-
-	764	764	-	-	-
<u>(105,851)</u>	<u>764</u>	<u>(105,087)</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	244	-	-
-	-	-	-	(244)	-
-	-	-	-	-	(45)
-	-	-	244	(244)	(45)
32,597	-	32,597	-	-	-
4,360	-	4,360	-	-	-
311	-	311	-	-	-
424	-	424	-	-	-
60,565	-	60,565	5	444	233
2,277	41	2,318	-	-	-
800	3	803	-	-	8
<u>101,334</u>	<u>44</u>	<u>101,378</u>	<u>5</u>	<u>444</u>	<u>241</u>
(4,517)	808	(3,709)	249	200	196
158,242	2,795	161,037	182	45	-
<u>\$ 153,725</u>	<u>\$ 3,603</u>	<u>\$ 157,328</u>	<u>\$ 431</u>	<u>\$ 245</u>	<u>\$ 196</u>

**CANTON CITY SCHOOL DISTRICT**  
**STARK COUNTY, OHIO**  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006  
(AMOUNTS IN 000's)

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and investments . . . . .	\$ 2,302	\$ 7,912	\$ 28,276	\$ 6,962	\$ 45,452
Cash in segregated accounts . . . . .	-	-	1,044	-	1,044
Receivables:					
Taxes . . . . .	33,518	4,511	-	882	38,911
Accounts . . . . .	11	-	-	6	17
Intergovernmental . . . . .	531	-	1,184	2,713	4,428
Accrued interest . . . . .	245	-	218	-	463
Interfund loans . . . . .	1,309	574	-	-	1,883
Due from component units . . . . .	206	-	-	-	206
Loans . . . . .	27	-	-	-	27
Prepayments . . . . .	59	-	-	16	75
Materials and supplies inventory . . . . .	169	-	-	-	169
Restricted assets:					
Equity in pooled cash and cash equivalents . . . . .	220	-	-	-	220
Total assets . . . . .	<u>\$ 38,597</u>	<u>\$ 12,997</u>	<u>\$ 30,722</u>	<u>\$ 10,579</u>	<u>\$ 92,895</u>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 462	\$ -	\$ -	\$ 480	\$ 942
Contracts payable . . . . .	-	-	2,249	7	2,256
Retainage payable . . . . .	-	-	1,044	-	1,044
Accrued wages and benefits . . . . .	9,924	-	-	2,275	12,199
Compensated absences payable . . . . .	605	-	-	56	661
Pension obligation payable . . . . .	1,982	-	-	572	2,554
Intergovernmental payable . . . . .	523	-	-	129	652
Interfund loan payable . . . . .	268	-	-	1,615	1,883
Health care reimbursement arrangement payable . . . . .	467	-	-	-	467
Deferred insurance liability . . . . .	1,020	-	-	200	1,220
Deferred revenue . . . . .	31,880	4,302	1,296	2,451	39,929
Total liabilities . . . . .	<u>47,131</u>	<u>4,302</u>	<u>4,589</u>	<u>7,785</u>	<u>63,807</u>
<b>Fund Balances:</b>					
Reserved for encumbrances . . . . .	712	-	11,948	987	13,647
Reserved for textbooks . . . . .	220	-	-	-	220
Reserved for materials and supplies inventory . . . . .	169	-	-	-	169
Reserved for debt service . . . . .	-	8,487	-	-	8,487
Reserved for property tax unavailable for appropriation . . . . .	1,782	208	-	78	2,068
Reserved for prepayments . . . . .	59	-	-	15	74
Unreserved, undesignated (deficit), reported in:					
General fund . . . . .	(11,476)	-	-	-	(11,476)
Special revenue funds . . . . .	-	-	-	1,201	1,201
Capital projects funds . . . . .	-	-	14,185	513	14,698
Total fund balances . . . . .	<u>(8,534)</u>	<u>8,695</u>	<u>26,133</u>	<u>2,794</u>	<u>29,088</u>
Total liabilities and fund balances . . . . .	<u>\$ 38,597</u>	<u>\$ 12,997</u>	<u>\$ 30,722</u>	<u>\$ 10,579</u>	<u>\$ 92,895</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**CANTON CITY SCHOOL DISTRICT**  
**STARK COUNTY, OHIO**  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006  
(AMOUNTS IN 000's)

<b>Total governmental fund balances</b>		\$	29,088
<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.			177,605
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	6,118	
Accrued interest		243	
Intergovernmental revenue		2,824	
Extracurricular revenue		5	
Fees		8	
Rental income		5	
Total		9,203	9,203
Unamortized deferred charges on refundings are not recognized in the funds.			2,159
Unamortized premiums on bond and note issuances are not recognized in the funds.			(2,583)
Unamortized bond issuance costs are not recognized in the funds.			422
Internal service funds are used by management to charge the costs of workers' compensation and warehouse services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities on the statement of net assets.			1,291
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(162)
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		(45,655)	
Compensated absences		(3,813)	
Capital lease obligations		(1,277)	
Health care reimbursement arrangement payable		(5,273)	
Notes payable		(7,280)	
Total		(63,298)	(63,298)
<b>Net assets of governmental activities</b>		\$	153,725

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**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, 2006  
(AMOUNTS IN 000's)

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
From local sources:					
Taxes. . . . .	\$ 32,830	\$ 4,376	\$ -	\$ 745	\$ 37,951
Tuition. . . . .	349	-	-	21	370
Earnings on investments. . . . .	1,006	7	1,232	33	2,278
Extracurricular. . . . .	47	-	-	909	956
Classroom materials and fees. . . . .	11	-	-	7	18
Rental income. . . . .	264	-	-	49	313
Contributions and donations . . . . .	12	-	-	90	102
Charges for services. . . . .	999	-	-	160	1,159
Other local revenues. . . . .	744	-	-	57	801
Intergovernmental - Intermediate sources. . . . .	-	-	-	733	733
Intergovernmental - State. . . . .	60,234	348	3,766	11,210	75,558
Intergovernmental - Federal . . . . .	40	-	-	13,240	13,280
Total revenue . . . . .	<u>96,536</u>	<u>4,731</u>	<u>4,998</u>	<u>27,254</u>	<u>133,519</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular . . . . .	34,700	-	-	7,367	42,067
Special. . . . .	11,116	-	-	4,720	15,836
Vocational. . . . .	1,658	-	-	25	1,683
Adult/continuing . . . . .	2	-	-	722	724
Other . . . . .	9,932	-	-	680	10,612
Support Services:					
Pupil. . . . .	5,950	-	-	2,615	8,565
Instructional staff . . . . .	2,800	-	-	4,710	7,510
Board of education . . . . .	29	-	-	-	29
Administration. . . . .	7,695	-	-	1,039	8,734
Fiscal . . . . .	1,440	-	-	154	1,594
Business . . . . .	654	-	-	-	654
Operations and maintenance. . . . .	9,734	-	-	1,482	11,216
Pupil transportation . . . . .	3,117	-	-	158	3,275
Central. . . . .	2,590	-	-	555	3,145
Operation of non-instructional services . . . . .	413	-	-	825	1,238
Extracurricular activities. . . . .	1,335	-	-	740	2,075
Facilities acquisition and construction . . . . .	296	-	26,701	718	27,715
Intergovernmental pass through. . . . .	10	-	-	418	428
Debt service:					
Principal retirement . . . . .	243	2,270	-	-	2,513
Interest and fiscal charges . . . . .	45	1,868	-	7	1,920
Total expenditures . . . . .	<u>93,759</u>	<u>4,138</u>	<u>26,701</u>	<u>26,935</u>	<u>151,533</u>
Excess of revenues over (under) expenditures . . . . .	<u>2,777</u>	<u>593</u>	<u>(21,703)</u>	<u>319</u>	<u>(18,014)</u>

--continued

**CANTON CITY SCHOOL DISTRICT**  
**STARK COUNTY, OHIO**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(AMOUNTS IN 000's)

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Other financing sources (uses):</b>					
Transfers in . . . . .	-	-	-	99	99
Transfers (out). . . . .	(285)	-	-	-	(285)
Proceeds of capital lease transaction . . . . .	-	-	-	850	850
Total other financing sources (uses) . . . . .	<u>(285)</u>	<u>-</u>	<u>-</u>	<u>949</u>	<u>664</u>
Net change in fund balances . . . . .	2,492	593	(21,703)	1,268	(17,350)
<b>Fund balances (deficit)</b>					
at beginning of year (restated). . . . .	(11,000)	8,102	47,836	1,526	46,464
Decrease in reserve for inventory. . . . .	<u>(26)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26)</u>
<b>Fund balances (deficit)</b>					
at end of year . . . . .	<u>\$ (8,534)</u>	<u>\$ 8,695</u>	<u>\$ 26,133</u>	<u>\$ 2,794</u>	<u>\$ 29,088</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**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, 2006  
(AMOUNTS IN 000's)

**Net change in fund balances - total governmental funds** \$ (17,350)

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

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

Capital asset additions	\$	24,062	
Current year depreciation		(4,761)	
Total			19,301

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (1)

Capital lease transactions are recorded as an other financing source in the funds; however, in the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets. (850)

Governmental funds report expenditures for inventory when purchased, however, in the statement of activities, they are reported as expenditures when consumed. (26)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (7,385)

Repayment of long-term principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. The following principal payments were made in the fiscal year:

Bonds		1,030	
Notes		1,240	
Capital lease obligations		243	
Total			2,513

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

Decrease in accrued interest payable		17	
Accreted interest on "capital appreciation" bonds		(314)	
Amortization of bond and note issuance costs		(31)	
Amortization on bond and note premiums		155	
Amortization of deferred charge on refunding		(124)	
Total			(297)

Some expenses reported in the statement of activities, such as compensated absences and the health reimbursement arrangement payable do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (414)

The internal service funds used by management to charge the costs of workers' compensation and warehouse services to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue of the internal service funds are allocated among the governmental activities. (8)

**Change in net assets of governmental activities** \$ (4,517)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**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, 2006  
(AMOUNTS IN 000's)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 32,813	\$ 32,451	\$ 32,506	\$ 55
Tuition . . . . .	353	349	349	-
Earnings on investments . . . . .	695	687	687	-
Extracurricular . . . . .	24	23	47	24
Classroom materials and fees . . . . .	35	34	20	(14)
Other local revenues . . . . .	502	496	496	-
Rental income . . . . .	303	298	267	(31)
Contributions and donations . . . . .	21	21	12	(9)
Charges for services . . . . .	776	768	766	(2)
Intergovernmental - State . . . . .	61,054	60,380	60,380	-
Intergovernmental - Federal . . . . .	281	278	278	-
<b>Total revenue . . . . .</b>	<u>96,857</u>	<u>95,785</u>	<u>95,808</u>	<u>23</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	35,577	35,585	35,521	64
Special . . . . .	11,461	11,464	11,237	227
Vocational . . . . .	1,795	1,855	1,782	73
Other . . . . .	10,391	10,393	9,681	712
Support Services:				
Pupil . . . . .	6,176	6,178	6,012	166
Instructional staff . . . . .	2,845	2,845	2,660	185
Board of education . . . . .	14	14	28	(14)
Administration . . . . .	8,393	8,395	8,146	249
Fiscal . . . . .	1,329	1,329	1,473	(144)
Business . . . . .	733	733	703	30
Operations and maintenance . . . . .	9,778	9,781	9,851	(70)
Pupil transportation . . . . .	3,150	3,151	3,143	8
Central . . . . .	2,639	2,640	2,728	(88)
Operation of non-instructional services . . . . .	485	493	424	69
Extracurricular activities . . . . .	1,401	1,401	1,328	73
Facilities acquisition and construction . . . . .	310	310	336	(26)
<b>Total expenditures . . . . .</b>	<u>96,477</u>	<u>96,567</u>	<u>95,053</u>	<u>1,514</u>
Excess of revenues over (under) expenditures . . . . .	<u>380</u>	<u>(782)</u>	<u>755</u>	<u>1,537</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	-	-	267	267
Refund of prior year receipt . . . . .	(153)	(153)	(146)	7
Transfers in . . . . .	-	-	56	56
Transfers (out) . . . . .	(191)	(191)	(346)	(155)
Advances in . . . . .	-	-	5,279	5,279
Advances (out) . . . . .	-	-	(6,010)	(6,010)
Contingency . . . . .	(166)	(166)	(22)	144
Pass through . . . . .	-	-	(10)	(10)
Proceeds from sale of notes . . . . .	-	268	268	-
Proceeds from sale of capital assets . . . . .	-	-	34	34
<b>Total other financing sources (uses) . . . . .</b>	<u>(510)</u>	<u>(242)</u>	<u>(630)</u>	<u>(388)</u>
Net change in fund balance . . . . .	(130)	(1,024)	125	1,149
<b>Fund balance at beginning of year . . . . .</b>	442	442	442	-
<b>Prior year encumbrances appropriated . . . . .</b>	933	933	933	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 1,245</u>	<u>\$ 351</u>	<u>\$ 1,500</u>	<u>\$ 1,149</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON CITY SCHOOL DISTRICT**  
**STARK COUNTY, OHIO**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2006**  
**(AMOUNTS IN 000's)**

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Funds</b>
	<u>                    </u>	<u>                    </u>
<b>Assets:</b>		
Current assets:		
Equity in pooled cash and investments. . . . .	\$ 2,654	\$ 1,997
Receivables:		
Accounts . . . . .	9	-
Intergovernmental . . . . .	1,206	-
Materials and supplies inventory . . . . .	55	-
	<u>                    </u>	<u>                    </u>
Total current assets . . . . .	3,924	1,997
	<u>                    </u>	<u>                    </u>
Noncurrent assets:		
Depreciable capital assets, net . . . . .	230	-
	<u>                    </u>	<u>                    </u>
Total assets . . . . .	4,154	1,997
	<u>                    </u>	<u>                    </u>
<b>Liabilities:</b>		
Accounts payable. . . . .	15	-
Accrued wages and benefits . . . . .	164	-
Compensated absences. . . . .	8	-
Pension obligation payable. . . . .	194	-
Interfund loan payable . . . . .	-	-
Intergovernmental payable . . . . .	23	202
Deferred insurance liability . . . . .	37	1
Claims payable . . . . .	-	503
	<u>                    </u>	<u>                    </u>
Total current liabilities . . . . .	441	706
	<u>                    </u>	<u>                    </u>
Long-term liabilities:		
Compensated absences payable. . . . .	110	-
	<u>                    </u>	<u>                    </u>
Total long-term liabilities . . . . .	110	-
	<u>                    </u>	<u>                    </u>
Total liabilities . . . . .	551	706
	<u>                    </u>	<u>                    </u>
<b>Net assets:</b>		
Invested in capital assets . . . . .	230	-
Unrestricted. . . . .	3,373	1,291
	<u>                    </u>	<u>                    </u>
Total net assets . . . . .	\$ 3,603	\$ 1,291
	<u>                    </u>	<u>                    </u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON CITY SCHOOL DISTRICT**  
**STARK COUNTY, OHIO**  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(AMOUNTS IN 000's)

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Funds</b>
	<u>                    </u>	<u>                    </u>
<b>Operating revenues:</b>		
Tuition and fees. . . . .	\$ 1,007	\$ 85
Sales/charges for services. . . . .	656	631
Other . . . . .	1	1
	<u>                    </u>	<u>                    </u>
Total operating revenues . . . . .	1,664	717
	<u>                    </u>	<u>                    </u>
<b>Operating expenses:</b>		
Personal services. . . . .	3,216	251
Purchased services. . . . .	376	22
Materials and supplies . . . . .	2,243	110
Depreciation . . . . .	33	-
Claims. . . . .	-	586
Other. . . . .	66	1
	<u>                    </u>	<u>                    </u>
Total operating expenses. . . . .	5,934	970
	<u>                    </u>	<u>                    </u>
Operating loss . . . . .	(4,270)	(253)
	<u>                    </u>	<u>                    </u>
<b>Nonoperating revenues:</b>		
Federal donated commodities . . . . .	291	-
Interest revenue . . . . .	41	59
Gain on sale of capital assets . . . . .	2	-
Grants and subsidies. . . . .	4,744	-
	<u>                    </u>	<u>                    </u>
Total nonoperating revenues. . . . .	5,078	59
	<u>                    </u>	<u>                    </u>
Income (loss) before transfers . . . . .	808	(194)
	<u>                    </u>	<u>                    </u>
Transfer in . . . . .	-	186
	<u>                    </u>	<u>                    </u>
Change in net assets . . . . .	808	(8)
	<u>                    </u>	<u>                    </u>
<b>Net assets at beginning of year . . . . .</b>	<b>2,795</b>	<b>1,299</b>
	<u>                    </u>	<u>                    </u>
<b>Net assets at end of year. . . . .</b>	<b>\$ 3,603</b>	<b>\$ 1,291</b>
	<u>                    </u>	<u>                    </u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON CITY SCHOOL DISTRICT**  
**STARK COUNTY, OHIO**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**  
**(AMOUNTS IN 000's)**

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Funds</b>
	<u>                    </u>	<u>                    </u>
<b>Cash flows from operating activities:</b>		
Cash received from tuition and fees . . . . .	\$ 1,007	\$ 85
Cash received from sales/charges for services. . . . .	650	631
Cash received from other operations . . . . .	1	3
Cash payments for personal services. . . . .	(3,206)	(265)
Cash payments for contractual services . . . . .	(406)	(22)
Cash payments for materials and supplies . . . . .	(1,950)	(110)
Cash payments for claims . . . . .	-	(336)
Cash payments for other expenses . . . . .	(66)	-
	<u>                    </u>	<u>                    </u>
Net cash used in operating activities . . . . .	<u>(3,970)</u>	<u>(14)</u>
<b>Cash flows from noncapital financing activities:</b>		
Cash received from grants and subsidies. . . . .	4,386	-
Cash received from transfers in . . . . .	<u>-</u>	<u>186</u>
	<u>                    </u>	<u>                    </u>
Net cash provided by noncapital financing activities. . . . .	<u>4,386</u>	<u>186</u>
<b>Cash flows from investing activities:</b>		
Interest received . . . . .	<u>41</u>	<u>59</u>
	<u>                    </u>	<u>                    </u>
Net cash provided by investing activities . . . . .	<u>41</u>	<u>59</u>
Net increase in cash and cash equivalents . . . . .	457	231
<b>Cash and cash equivalents at beginning of year . . .</b>	<u>2,197</u>	<u>1,766</u>
<b>Cash and cash equivalents at end of year. . . . .</b>	<u><u>\$ 2,654</u></u>	<u><u>\$ 1,997</u></u>

(Continued)



**CANTON CITY SCHOOL DISTRICT**  
**STARK COUNTY, OHIO**  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(AMOUNTS IN 000's)

	<b>Business-Type Activities - Nonmajor Enterprise Funds</b>	<b>Governmental Activities - Internal Service Funds</b>
	<b>Funds</b>	<b>Funds</b>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss . . . . .	\$ (4,270)	\$ (253)
Adjustments:		
Depreciation . . . . .	33	-
Federal donated commodities . . . . .	291	-
Changes in assets and liabilities:		
(Increase) in materials and supplies inventory . . . . .	(8)	-
(Increase) decrease in accounts receivable . . . . .	(6)	2
(Increase) in intergovernmental receivable. . . . .	(6)	-
(Decrease) in accounts payable . . . . .	(19)	-
Increase (decrease) in accrued wages and benefits. . . . .	34	(10)
Increase in intergovernmental payable . . . . .	16	202
Increase (decrease) in compensated absences payable . . . . .	21	(3)
(Decrease) in pension obligation payable . . . . .	(19)	-
(Decrease) in deferred insurance liability . . . . .	(37)	(1)
Increase in claims payable . . . . .	-	49
	\$ (3,970)	\$ (14)
Net cash used in operating activities . . . . .		

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON CITY SCHOOL DISTRICT**  
**STARK COUNTY, OHIO**  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2006  
 (AMOUNTS IN 000's)

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and investments . . . . .	\$ 101	\$ 214
Receivables:		
Accounts. . . . .	-	1
	101	215
Total assets . . . . .	101	215
<b>Liabilities:</b>		
Accounts payable. . . . .	5	\$ 5
Loans payable . . . . .	-	27
Due to students . . . . .	-	183
	5	215
Total liabilities . . . . .	5	215
<b>Net Assets:</b>		
Held in trust for scholarships. . . . .	96	
Total net assets. . . . .	\$ 96	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON CITY SCHOOL DISTRICT**  
**STARK COUNTY, OHIO**  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
 (AMOUNTS IN 000's)

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	
<b>Additions:</b>		
Interest . . . . .	\$	4
Gifts and contributions. . . . .		40
		44
Total additions. . . . .		44
<b>Deductions:</b>		
Scholarships awarded . . . . .		49
		(5)
Change in net assets . . . . .		(5)
<b>Net assets at beginning of year. . . . .</b>		<b>101</b>
<b>Net assets at end of year . . . . .</b>	<b>\$</b>	<b>96</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

The Canton City School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District operates under a locally elected five-member Board of Education and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's twenty-four instructional/support facilities.

The District ranks as the 13<sup>th</sup> largest by enrollment among the 613 public school districts in the State. The District employs 616 non-certified and 924 certified employees to provide services to approximately 11,605 students and community groups.

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

The 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 local 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 and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The District has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The District has elected not to apply these FASB Statements and Interpretations. The most significant of the District's 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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". When applying GASB Statement No. 14, management has considered all potential component units. 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 organization's 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 organization's 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; or (4) 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 debt, the issuance of debt, or the levying of taxes. Based upon the application of these criteria, the District has three component units. The financial statements of the reporting entity include those of the District (the primary government) and the three component units. In addition, the District is involved in the following educational agreement:

Comprehensive Collaborative Agreement ("CCA")

The CCA is an agreement between six schools in Stark County to provide comprehensive educational programs that offer students of the participating districts enhanced educational opportunities. Each participating district has one representative on an Oversight Committee that discusses issues and reviews decisions regarding programs established through the CCA. The CCA expires June 30, 2008.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

The following component units and other organizations are described due to their relationship to the District:

*COMPONENT UNITS*

The Canton City Schools Digital Academy

The Canton City Schools Digital Academy (the “Digital Academy”) is a legally separate, conversion community school, served by a Board of Directors. The Digital Academy provides students within the District with curriculum and instruction via distance learning technology. The Board of Directors consists of the District’s Assistant to the Superintendent-Elementary Instruction, the District’s Director of Special Education, the District’s Director of Instructional Technology and Assessment and two additional Board members appointed by the District. The Canton City School District is the sponsoring School District of the Digital Academy under Ohio Law Section 3314. The Superintendent of the District serves as the Chief Administrative Officer of the Digital Academy and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the Digital Academy, the Academy’s purpose of servicing the students with the District, and the relationship between the Board of Education of the District and the Board of Directors of the Digital Academy, the Digital Academy is reflected as a component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Digital Academy at 617 McKinley Avenue SW, Canton, Ohio 44707.

The Canton Academy Community School

The Canton Academy Community School (the “Academy”) is a legally separate, conversion community school, served by a Board of Directors. The Academy is designed to meet the academic and mental health needs of high school students, grades 9 through 12, ages 14 through 22, who are unsuccessful in the traditional educational setting. Typically, they are identified as students with special needs or are “at highest risk” for academic failure. The Board of Directors consists of one member from each of the following organizations: Stark County Community Mental Health Board, Stark County Family Council, City of Canton, Stark County Department of Jobs and Family Services and Canton City Schools. The Canton City School District is the sponsoring School District of the Academy under Ohio Law Section 3314. The Superintendent of the District serves as the Chief Administrative Officer of the Academy and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the Academy, the Academy’s purpose of servicing the students within the District, and the relationship between the Board of Education of the District and the Board of Directors of the Academy, the Academy is reflected as a component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Academy at 617 McKinley Avenue SW, Canton, Ohio 44707.

The Canton Arts Academy Community School

The Canton Arts Academy Community School (the “Arts Academy”) is a legally separate, conversion community school, served by a Board of Directors. The Arts Academy is designed to meet the academic needs of students, grades 3 through 8, ages 9 through 14, who have an interest in visual and music arts. The Arts Academy operates under the direction of a Board of Directors that include as voting members one person serving as the representative of the District. In addition, the voting members of the Board of Directors shall include not more than six other persons who are neither officers nor employees of the District. No person may become a voting member of the Board of Directors without prior approval of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

The Canton City School District is the sponsoring School District of the Arts Academy under Ohio Law Section 3314. The Superintendent of the District serves as the Chief Administrative Officer of the Arts Academy and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the Arts Academy, the Arts Academy's purpose of servicing the students within the District, and the relationship between the Board of Education of the District and the Board of Directors of the Arts Academy, the Arts Academy is reflected as a component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Arts Academy at 617 McKinley Avenue SW, Canton, Ohio 44707.

*JOINTLY GOVERNED ORGANIZATIONS*

Canton Joint Recreation District

The District appoints two of the five members of the Canton Joint Recreation District (the "CJRD"). The CJRD manages recreational activities within the City of Canton at facilities owned by either the City of Canton or the District. The CJRD hires and fires its own staff and does not rely on the District to finance deficits. The District is not financially accountable for the CJRD nor is the CJRD financially dependent upon the District. The CJRD serves as its own budgeting, taxing and debt issuance authority. The District paid maintenance fees of \$2,190 to the CJRD during fiscal year 2006. Complete financial statements can be obtained from the Canton Joint Recreation District at 1101 Market Avenue, Canton, Ohio 44702.

*PUBLIC ENTITY RISK POOL*

The Stark County Schools Council of Government (the "COG") 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 as the Board of Directors. The assembly exercises control over the operation of the COG. All COG's revenues are generated from charges for services. The COG has a Health Benefits Program which is a shared risk pool comprised of 39 Stark County entities, most of which are school districts.

**B. Fund Accounting**

The District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is divided into separate fund types.

*GOVERNMENTAL FUNDS*

Governmental funds focus 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:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest and certain long-term obligations from governmental resources when the government is obligated in some manner for payment.

Classroom Facilities - This fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

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 other than those financed by proprietary and trust funds; and (b) 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 where the determination of net income is necessary or useful to sound financial administration. Proprietary funds consist of enterprise funds and internal service funds.

Enterprise Funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District's nonmajor enterprise funds are:

Food Service Fund - This fund accounts for the financial transactions related to the food service operations of the District.

Adult Education Fund - This fund accounts for educational opportunities offered on a tuition basis to adults living within the community.

Internal Service Funds - The internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The internal service funds of the District are used to account for workers' compensation and warehouse service programs.

**CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: 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 scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for student activities and District agency services.

**C. Basis of Presentation**

*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. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund 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 government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the 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 which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

*Fund Financial Statements* - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.



**CANTON CITY SCHOOL DISTRICT  
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FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

Private-purpose trust funds are 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 on the fund financial statements. Proprietary and 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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

**CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**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 are reported in the 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. Allocations 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 budget documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriations Resolution, all of which are prepared on the budgetary basis of accounting. All funds, other than agency funds, are required to be budgeted and appropriated. The legal level of budgetary control is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with legal restriction that appropriations cannot exceed estimated resources, as certified. The amounts reported as the original budgeted revenues in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenues in the budgetary statement reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board of Education. The amounts reported as the original budgeted expenditures reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted expenditures represent the final appropriation amounts passed by the Board during the year.

**F. Cash and Investments**

To improve cash management, cash received by the District, other than those reported in segregated accounts, is pooled. Monies for all funds, including proprietary and fiduciary 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 Investments" on the financial statements.

During fiscal year 2006, investments were limited to federal agency securities, U.S. Treasury notes, repurchase agreements, U. S. Government money market mutual funds, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

**CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

The District has invested funds in STAR Ohio during fiscal year 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$1.006 million which includes \$901,000 assigned from other District funds.

Cash in segregated accounts represents monies held in depository accounts for construction retainage. These funds are held by the District until successful completion of the related construction project. These monies are held outside the District's internal investment pool.

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.

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

**G. Inventory**

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

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used. Inventories for governmental funds are accounted for using the purchase method on the fund financial statements and using the consumption method on the government-wide financial statements. Inventory for proprietary funds are accounted for using the consumption method.

**H. Capital Assets**

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000 for its general capital assets. 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. Interest incurred during the construction of enterprise capital assets is also capitalized.

All reported capital assets except land and construction in progress 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>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	20 years	N/A
Building/ improvements	25 - 50 years	N/A
Furniture/equipment	5 - 20 years	5 - 20 years
Vehicles	6 - 10 years	N/A

**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 and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances. The District had no internal balances at fiscal year-end.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability 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 severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

**CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

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

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences and future retirement obligations 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 notes are recognized as a liability in 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, prepayments, textbooks, debt service, 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.

**M. Net Assets**

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

**CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

**N. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the financial statements using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**O. Parochial Schools**

Within the District boundaries are various parochial schools operated through the Catholic Diocese. Current state legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District, as directed by the parochial school. The fiduciary responsibility of the District for these monies is reflected in a special revenue fund (a nonmajor governmental fund) for financial reporting purposes.

**P. 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.

**Q. 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. See Note 16 for further detail on the District's restricted assets at June 30, 2006 related to statutory reserves and see Note 10.C. for further detail on restricted assets related to QZAB sinking fund deposits maintained by the District.

**R. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are tuition for adult education classes, sales for food service and charges for services for workers' compensation and warehouse service programs. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenues not related to operating activities have been reported as nonoperating revenue.

**S. Interfund Activity**

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

**CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

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

**T. 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 year 2006.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries. The implementation of GASB Statement 42 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation. The implementation of GASB Statement 46 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

GASB Statement No. 47 establishes accounting standards for termination benefits. The implementation of GASB Statement No. 47 had an effect on the fund balance/net assets as previously reported at June 30, 2005. Under GASB Statement No. 47, the District's health care reimbursement arrangement (HRA) is required to be reported as a fund liability to the extent the liability is expected to be liquidated using current financial resources (see Note 10.F. for further detail on the HRA liability).

**CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)**

The implementation of GASB Statement No. 47 had the following effect on fund balances as previously reported:

	<u>General</u>
Fund Balance, June 30, 2005	\$ (10,707)
Implementation of GASB Statement No. 47	(293)
Restated fund balance, June 30, 2005	\$ (11,000)

The implementation of GASB Statement No. 47 also had an effect on governmental activities net assets as previously reported which is described below.

**B. Restatement of Net Assets**

Net assets of the governmental activities have been restated to correct for adjustments in the amount due from the State of Ohio related to the OSFC project. Due to adjustments and revisions in the overall project costs, the amount due from the State must be reduced. It was also determined that the implementation of GASB Statement No. 47 had an effect on net assets of the governmental activities requiring a liability to be recorded for the District's HRA offered to employees electing to retire from the District. In addition, a restatement of net assets is required to properly report capital assets (building values) that were previously unrecorded in the prior year (see Note 8). The correction of the intergovernmental receivable, the implementation of GASB Statement No. 47, and the adjustment to capital assets had the following effect on net assets as previously reported (amounts in 000's):

	<u>Governmental Activities</u>
Net assets, June 30, 2005	\$ 150,018
Adjustment for intergovernmental receivable	(5,781)
Implementation of GASB Statement No. 47	(5,108)
Adjustment to capital assets	19,113
Restated net assets, June 30, 2005	\$ 158,242



**CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)**

**C. Deficit Fund Balances**

Fund balances at June 30, 2006 included the following individual fund deficits (amounts in 000's):

<u>Major Funds</u>	
General	\$ 8,534
<u>Nonmajor Funds</u>	
Poverty Aid	842
District Managed Student Activities	182
Public School Preschool	159
Career Education	1
IDEA, Part B	287
Alternative Schools	13
Vocational Education	34
Preschool Grants for Handicapped	11
Classroom Reduction	21
CAD H.B.	192
F.E.R.P.	37

These funds complied with Ohio state law, which does not permit cash basis deficits. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities. These deficits should be eliminated by future intergovernmental revenues not recognized under GAAP at June 30.

**D. Compliance**

Contrary to Ohio Revised Code Section 5705.41(D), the District did not properly certify the availability of funds for various expenditures prior to incurring the obligation.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

**CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in 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 Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Protection of District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the 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.

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**A. Cash in Segregated Accounts**

At June 30, 2006, the District had \$1.044 million on deposit in retainage accounts related to various construction projects. This amount is included on the financial statements as "Cash in Segregated Accounts" and is included in deposits with financial institutions below.

**B. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$3.405 million, exclusive of the \$2.065 million repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$4.340 million of the District's bank balance of \$4.667 million was exposed to custodial risk as discussed below, while \$327,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**C. Investments**

As of June 30, 2006, the District had the following investments and maturities (amounts in 000's):

Investment type	Balance at Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
Repurchase Agreement	\$ 2,065	\$ 2,065	\$ -	\$ -	\$ -	\$ -
STAR Ohio	5,422	5,422	-	-	-	-
FHLMC	19,642	17,701	1,941	-	-	-
FHLB	5,768	5,768	-	-	-	-
FNMA	9,891	9,891	-	-	-	-
Treasury Notes	5,472	-	-	-	-	5,472
U.S. Government Money Market	16	16	-	-	-	-
	<u>\$ 48,276</u>	<u>\$ 40,863</u>	<u>\$ 1,941</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,472</u>

The weighted average maturity of investments is .91 years.

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less. The District's investment policy limits investment in commercial paper to maturities of 180 days or less from the date of purchase.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Credit Risk:* The District's investments, except for the repurchase agreement as discussed below and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAm money market rating.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

*Concentration of Credit Risk:* The District investment policy places limits on the amount that may be invested in any one issuer. Investments in federal agency securities may not exceed 70% of the District's portfolio at time of purchase. In addition, no more than 25% of investments in federal agency securities may be in callable agency securities. Investments in commercial paper may not exceed 25% of the District's portfolio at time of purchase.

The following table includes the percentage of each investment type held by the District at June 30, 2006 (amounts in 000's):

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 2,065	4.28
STAR Ohio	5,422	11.23
FHLMC	19,642	40.69
FNMA	9,891	20.49
FHLB	5,768	11.95
Treasury Notes	5,472	11.33
U.S. Government Money Market	16	0.03
	<u>\$ 48,276</u>	<u>100.00</u>

**CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**D. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006 (amounts in 000's):

<u>Cash and Investments per note</u>	
Carrying amount of deposits	\$ 3,405
Investments	<u>48,276</u>
Total	<u>\$ 51,681</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 48,712
Business type activities	2,654
Private-purpose trust funds	101
Agency funds	<u>214</u>
Total	<u>\$ 51,681</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

A. Interfund loans receivable/payable consisted of the following at June 30, 2006, as reported on the fund statements (amounts in 000's):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 1,309
Bond Retirement	General	268
Bond Retirement	Nonmajor Governmental Funds	<u>306</u>
		<u>\$ 1,883</u>

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.

The interfund loan payable in the District Managed Student Activity special revenue fund (a nonmajor governmental fund) and the general fund of \$306,000 and \$268,000, respectively, represent the fiscal year-end balance of manuscript bonds that were issued by the Bond Retirement fund. A corresponding interfund loan receivable has been recorded in the Bond Retirement fund.

Interfund loans receivable/payable between governmental funds are eliminated for reporting on the statement of net assets. There are no internal balances between governmental activities and business-type activities at June 30, 2006.

**CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 5 - INTERFUND TRANSACTIONS – (Continued)**

- B.** Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund statements (amounts in 000's):

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 99
Internal Service Fund	186
Total	\$ 285

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.

Interfund transfers between governmental funds are eliminated for reporting on the statement of activities. The internal service fund is consolidated with the governmental activities for reporting on the statement of activities. There were no transfers between governmental activities and business-type activities to report on the statement of activities at June 30, 2006.

- C.** Loans receivable and payable consisted of the following (amounts in 000's):

<u>Loan to</u>	<u>Loan from</u>	<u>Amount</u>
Agency	General	\$ 27

These loans will be repaid as resources become available in the agency funds.

**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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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.

**CANTON CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-three percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property taxes received in calendar year 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of January 1, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for property including inventory for 2006 is 18.75%. This will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Stark County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available as an advance at June 30, 2006 was \$1.782 million in the general fund, \$208,000 in the debt service fund and \$78,000 in the permanent improvement capital projects fund (a nonmajor governmental fund). The amount available for advance at June 30, 2005 was \$1.458 million in the general fund, \$170,000 in the debt service fund and \$64,000 in the permanent improvement capital projects fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary depending upon when the tax bills are sent by the County Auditor.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

The assessed values upon which the fiscal year 2006 taxes were collected are (amounts in 000's):

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 667,602	77.15	\$ 669,813	76.15
Public Utility Personal	46,420	5.36	45,780	5.20
Tangible Personal Property	<u>151,310</u>	<u>17.49</u>	<u>163,955</u>	<u>18.65</u>
Total	<u>\$ 865,332</u>	<u>100.00</u>	<u>\$ 879,548</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 60.10		\$ 60.10	
Debt service	3.50		3.50	
Permanent improvement	2.00		2.00	
Classroom maintenance	0.50		0.50	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, loans, amounts due from component units, 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. Principal items of receivables reported on the statement of net assets follows (amounts in 000's):

<b>Governmental Activities</b>	
Taxes	\$ 38,912
Accounts	18
Intergovernmental	4,428
Accrued interest	463
Due from component units	206
Loans	<u>27</u>
Total governmental activities	<u>\$ 44,054</u>
<b>Business-Type Activities</b>	
Intergovernmental	\$ 1,206
Accounts	<u>9</u>
Total business-type activities	<u>\$ 1,215</u>

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



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 8 - CAPITAL ASSETS**

Capital asset balances at June 30, 2005 for the governmental activities have been restated to correct building values constructed in the prior years. The building/improvements line item has been increased by \$19.113 million from \$117.845 million to \$136.958 million at June 30, 2005 and the total governmental activities capital assets, net, has been restated from \$139.192 million to \$158.305 million at June 30, 2005. See Note 3.B for the restatement made to net assets as previously reported.

Capital asset activity for the fiscal year-ended June 30, 2006, was as follows (amounts in 000's):

	Restated Balance <u>June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2006</u>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 17,315	\$ -	\$ -	\$ 17,315
Construction in progress	<u>27,703</u>	<u>12,391</u>	<u>-</u>	<u>40,094</u>
Total capital assets, not being depreciated	<u>45,018</u>	<u>12,391</u>	<u>-</u>	<u>57,409</u>
Capital assets, being depreciated:				
Land improvements	4,807	308	-	5,115
Building/improvements	136,958	10,564	-	147,522
Furniture/equipment	6,756	394	(50)	7,100
Vehicles	<u>4,027</u>	<u>405</u>	<u>(165)</u>	<u>4,267</u>
Total capital assets, being depreciated	<u>152,548</u>	<u>11,671</u>	<u>(215)</u>	<u>164,004</u>
Less: accumulated depreciation				
Land improvements	(1,494)	(191)	-	(1,685)
Building/improvements	(30,038)	(3,632)	-	(33,670)
Furniture/equipment	(4,223)	(781)	50	(4,954)
Vehicles	<u>(3,506)</u>	<u>(157)</u>	<u>164</u>	<u>(3,499)</u>
Total accumulated depreciation	<u>(39,261)</u>	<u>(4,761)</u>	<u>214</u>	<u>(43,808)</u>
Governmental activities capital assets, net	<u>\$ 158,305</u>	<u>\$ 19,301</u>	<u>\$ (1)</u>	<u>\$ 177,605</u>
<b>Business-Type Activities</b>				
Capital assets, being depreciated:				
Furniture/equipment	\$ 972	\$ -	\$ (25)	\$ 947
Less: accumulated depreciation	<u>(708)</u>	<u>(34)</u>	<u>25</u>	<u>(717)</u>
Business-type activities capital assets, net	<u>\$ 264</u>	<u>\$ (34)</u>	<u>\$ -</u>	<u>\$ 230</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

Depreciation expense was charged to governmental functions as follows (amounts in 000's):

Instruction:	
Regular	\$ 2,306
Special	479
Support Services:	
Pupil	160
Instructional staff	276
Administration	352
Operations and maintenance of plant	253
Pupil transportation	121
Operation of non-instructional services	539
Extracurricular activities	<u>275</u>
Total depreciation expense	<u>\$ 4,761</u>

**NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

In prior fiscal years, the District entered into capital lease agreements for copier equipment. During fiscal year 2006, the District entered into capital lease agreements for the acquisition of a stadium scoreboard and various stadium improvements. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the least term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Governmental activities capital assets consisting of copier equipment, stadium scoreboard and stadium improvements have been capitalized in the amount of \$2.113 million. This amount represents the present value of the future minimum lease payments at the time of acquisition.

A corresponding liability is recorded on the statement of net assets. Principal and interest payments in the 2006 fiscal year totaled \$243,004 and \$44,792, respectively. These amounts are reported as debt service payments of the general fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE – (Continued)**

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006 follows (amounts in 000's):

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 389
2008	269
2009	101
2010	101
2011	101
2012-2016	361
2017-2021	<u>263</u>
Total minimum lease payment	1,585
Less: amount representing interest	<u>(308)</u>
Present value of minimum lease payments	<u>\$ 1,277</u>

**NOTE 10 - LONG-TERM OBLIGATIONS**

- A. During fiscal year 2001, the District issued Series 2000 general obligation bonds to provide long-term financing of the construction and renovation of various school buildings in accordance with the terms of a Facilities grant from the Ohio Schools Facilities Commission (OSFC). The total project (hereafter "Construction Project") encompasses the construction of nine new elementary schools, one new middle school, and a high school campus and the remodeling of five elementary schools, three middle schools and two high schools. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 3.7 mills bonded debt tax levy.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the OSFC. OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2006, the total estimated cost of the Construction Project is approximately \$161 million, of which OSFC will pay approximately \$124 million.

In conjunction with the 3.7 mills which support the bond issue, the District also passed in fiscal year 2000 a 0.8 mill levy to fund land acquisition. Tax revenue from this levy had been reported in the capital projects funds.

During fiscal year 2005, the callable portion of the Series 2000 bonds were advance refunded (see Note 10.B). At June 30, 2006, current interest bonds with a par value of \$425,000 remained along with the capital appreciation bonds, par value \$1.685 million. The \$425,000 current interest bond is scheduled to mature on December 1, 2010 and bears an interest rate of 5.625%. The capital appreciation bonds mature at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. During fiscal year 2006, the District retired one of the capital appreciation bonds in the amount of \$425,000 (original principal of \$204,000 plus accreted interest of \$221,000).

**CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

The following is a schedule of maturity dates and effective interest rates for the capital appreciation bonds (amounts in 000's):

	Original Principal	Accreted Value at Maturity	Maturity Date	Effective Interest Rate
Capital appreciation bond	\$ 176	\$ 425	12/1/2006	15.37%
Capital appreciation bond	150	420	12/1/2007	15.47%
Capital appreciation bond	129	420	12/1/2008	15.49%
Capital appreciation bond	<u>112</u>	<u>420</u>	12/1/2009	15.51%
Total	<u>\$ 567</u>	<u>\$ 1,685</u>		

The present value (as of issue date) reported in the statement of net assets at June 30, 2006 was \$567,000. As of June 30, 2006, a total of \$714,000 in accreted interest on the capital appreciation bonds has been included on the statement of net assets.

Interest payments on the remaining current interest bonds, after refunding, are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2010.

The following is a schedule of activity for fiscal year 2006 on the Series 2000 general obligation bonds (amounts in 000's):

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006
Current interest bonds	\$ 425	\$ -	\$ -	\$ 425
Capital appreciation bonds	771	-	(204)	567
Accreted interest on capital appreciation bonds	<u>734</u>	<u>201</u>	<u>(221)</u>	<u>714</u>
Total	<u>\$ 1,930</u>	<u>\$ 201</u>	<u>\$ (425)</u>	<u>\$ 1,706</u>

The following is a summary of the future debt service requirements to maturity for the Series 2000 general obligation bonds after refunding (amounts in 000's):

Fiscal Year Ending	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ -	\$ 21	\$ 21	\$ 176	\$ 249	\$ 425
2008	-	21	21	150	270	420
2009	-	20	20	129	291	420
2010	-	20	20	112	308	420
2011	425	10	435	-	-	-
Total	<u>\$ 425</u>	<u>\$ 92</u>	<u>\$ 517</u>	<u>\$ 567</u>	<u>\$ 1,118</u>	<u>\$ 1,685</u>

**CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

- B.** On April 5, 2005, the District issued Series 2005 general obligation bonds refunding bonds to advance refund \$28.325 million of the Series 2000 current interest bonds. The issuance proceeds were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The refunding issue is comprised of both current interest bonds, par value \$27.855 million, and capital appreciation bonds, par value \$470,000. The average interest rate on the current interest bonds is 4.10%. The capital appreciation bonds mature December 1, 2012 and December 1, 2013 (effective interest 22.126%) 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 at June 30, 2006 was \$470,000. Total accreted interest of \$129,000 has been included in the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by \$2.314 million. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

Interest payments on the current interest bonds are due on June 1 and December 1 each year. The final maturity stated in the issue is December 1, 2023.

The following is a schedule of maturity dates and effective interest rates for the capital appreciation bonds (amounts in 000's).

	<u>Original Principal</u>	<u>Accreted Value at Maturity</u>	<u>Maturity Date</u>	<u>Effective Interest Rate</u>
Capital appreciation bond	\$ 133	\$ 665	12/1/2012	22.126%
Capital appreciation bond	<u>337</u>	<u>2,070</u>	12/1/2013	22.126%
Total	<u>\$ 470</u>	<u>\$ 2,735</u>		

The following is a schedule of the future debt service requirements to maturity for the Series 2006 general obligation refunding bonds (amounts in 000's):

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>
Current interest bonds	\$ 27,855	\$ -	(605)	27,250
Capital appreciation bonds	470	-	-	470
Accreted interest on capital appreciation bonds	<u>16</u>	<u>113</u>	<u>-</u>	<u>129</u>
Total G.O. Bonds	<u>\$ 28,341</u>	<u>\$ 113</u>	<u>\$ (605)</u>	<u>\$ 27,849</u>

**CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

The following is a summary of the future debt service requirements to maturity for the Series 2006 general obligation refunding bonds (amount in 000's):

Fiscal Year Ending	Current Interest Bonds			Capital Appreciation Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 175	\$ 1,285	\$ 1,460	\$ -	\$ -	\$ -
2008	180	1,280	1,460	-	-	-
2009	185	1,274	1,459	-	-	-
2010	190	1,269	1,459	-	-	-
2011	195	1,262	1,457	-	-	-
2012-2016	4,890	5,988	10,878	470	2,265	2,735
2017-2021	12,430	3,813	16,243	-	-	-
2022-2024	<u>9,005</u>	<u>690</u>	<u>9,695</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 27,250</u>	<u>\$ 16,861</u>	<u>\$ 44,111</u>	<u>\$ 470</u>	<u>\$ 2,265</u>	<u>\$ 2,735</u>

**CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

C. During the fiscal year 2001, the District issued a total of \$16.1 million in Classroom Facilities Improvement Bonds, Qualified Zone Academy Bonds (QZAB). The total proceeds were comprised of two separate issues; one of QZAB Series 2000 bonds in the amount of \$14 million and one of QZAB Series 2001 bonds in the amount of \$2.1 million. The QZAB Series 2000 bonds mature November 29, 2013 and the QZAB Series 2001 mature November 30, 2015. The District is required to make mandatory sinking fund deposits (consisting of cash and/or U.S. Treasury obligations) on December 1 in the following years and in the following amounts (in each case equal to the value of any cash deposits, plus the stated principal value at maturity of any U.S. Treasury obligations plus any interest to be paid thereon through and including the maturity date):

<u>December 1</u> <u>of year</u>	(Amounts in 000's)		
	<u>QZAB</u> <u>Series 2000</u>	<u>QZAB</u> <u>Series 2001</u>	<u>Total</u>
2001	\$ 1,000	\$ 140	\$ 1,140
2002	1,000	140	1,140
2003	1,000	140	1,140
2004	1,100	140	1,240
2005	1,100	140	1,240
2006	1,100	140	1,240
2007	1,100	140	1,240
2008	1,100	140	1,240
2009	1,100	140	1,240
2010	1,100	140	1,240
2011	1,100	140	1,240
2012	1,100	140	1,240
2013	1,100	140	1,240
2014	-	140	140
2015	-	140	140
	<u>\$ 14,000</u>	<u>\$ 2,100</u>	<u>\$ 16,100</u>

The QZAB Series 2000 bonds bear no interest and the QZAB Series 2001 bonds required stated annual interest payments. During fiscal year 2006, the District made \$1.240 million in sinking fund deposits. Since inception, a total of \$5.472 million in sinking fund deposits have been made by the District to retire the QZAB's at maturity. These deposits are maintained by the District until maturity of the QZABS in fiscal year 2014 and 2016. The resources, being accumulated through the sinking fund, are reported in the debt service fund. On the statement of net assets, the resources accumulated in the sinking fund are reported as a restricted asset since the condition underlying the restriction will not be met in the short or medium term.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

- D.** During fiscal year 2004, the District issued \$3.4 million in Series 2004 tax anticipation notes. During fiscal year 2002, the District issued \$6.165 million in Series 2002 tax anticipation notes. The Series 2004 notes bear annual interest rates ranging from 2.80%-4.75% and mature on December 1, 2009. The Series 2002 notes bear annual interest rates ranging from 3.25% - 5.00% and mature on June 1, 2013. The 2004 Series notes will be retired from future tax revenues from the general fund while the Series 2002 notes will be retired with future tax revenues of the Permanent Improvement capital projects fund (a nonmajor governmental fund). In accordance with GASB Statement No. 34, these notes are considered long-term since the notes are used for capital acquisition and construction. A summary of the tax anticipation note activity for the fiscal year ended June 30, 2006 follows (amounts in 000's):

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2006</u>
Tax anticipation note	\$ 5,120	\$ -	\$ (560)	\$ 4,560
Tax anticipation note	<u>3,400</u>	<u>-</u>	<u>(680)</u>	<u>2,720</u>
Total	<u>\$ 8,520</u>	<u>\$ -</u>	<u>\$ (1,240)</u>	<u>\$ 7,280</u>

The following is a summary of future debt service requirements to maturity for the tax anticipation notes (amounts in 000's):

<u>Fiscal</u> <u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,260	\$ 247	\$ 1,507
2008	1,280	200	1,480
2009	1,305	157	1,462
2010	1,330	109	1,439
2011	675	71	746
2012 - 2013	<u>1,430</u>	<u>58</u>	<u>1,488</u>
Total	<u>\$ 7,280</u>	<u>\$ 842</u>	<u>\$ 8,122</u>

- E.** During fiscal year 2004, the District joined the Stark County Schools COG for purposes of obtaining employee health benefits for certain employees (See Note 2.A. and Note 12.B.). The District entered into an agreement with the COG allowing the District to defer the payment of premiums for the period July 1, 2003 to December 31, 2003. These deferred premiums will be paid over the period July 1, 2005 through June 30, 2007 through an adjustment applied to the District's monthly insurance premiums for that period. The deferred insurance liability is recorded as a fund liability in the District's funds and on the statement of net assets.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

- F. The June 30, 2005 balance of the long-term obligations has been restated as described in Note 3.B. The changes in the District's long-term obligations during the year consist of the following (amounts in 000's):

	Restated Balance June 30, 2005	<u>Additions</u>	<u>Reductions</u>	Balance June 30, 2006	Amounts Due in One Year
<b>Governmental Activities</b>					
General obligation bonds:					
Current interest	\$ 28,280	\$ -	\$ (605)	\$ 27,675	\$ 175
Capital appreciation	1,241	-	(204)	1,037	176
Accreted interest	750	314	(221)	843	249
QZAB's	<u>16,100</u>	<u>-</u>	<u>-</u>	<u>16,100</u>	<u>-</u>
Total G.O. bonds	<u>46,371</u>	<u>314</u>	<u>(1,030)</u>	<u>45,655</u>	<u>600</u>
Notes payable	8,520	-	(1,240)	7,280	1,260
Compensated absences payable	4,624	729	(879)	4,474	798
Health care reimbursement arrangement payable	5,108	942	(310)	5,740	1,109
Deferred insurance liability	2,444	-	(1,222)	1,222	1,222
Capital lease obligation	<u>670</u>	<u>850</u>	<u>(243)</u>	<u>1,277</u>	<u>326</u>
Total governmental activities long-term liabilities	<u>\$ 67,737</u>	<u>\$ 2,835</u>	<u>\$ (4,924)</u>	65,648	<u>\$ 5,315</u>
Less: deferred charge on refunding				(2,159)	
Add: unamortized premium				<u>2,583</u>	
Total on statement of net assets				<u>\$ 66,072</u>	
<b>Business-Type Activities</b>					
Compensated absences	\$ 97	\$ 24	\$ (3)	\$ 118	\$ 8
Deferred insurance liability	<u>74</u>	<u>-</u>	<u>(37)</u>	<u>37</u>	<u>37</u>
Total business-type activities long-term liabilities	<u>\$ 171</u>	<u>\$ 24</u>	<u>\$ (40)</u>	<u>\$ 155</u>	<u>\$ 45</u>

Compensated absences and the deferred insurance liability will be paid from the fund from which the employee is paid. The health care reimbursement arrangement payable will be paid from the general fund.

Retirement Incentive Program

The District has offered a retirement incentive plan (RIP) to certified teaching staff. Severance payments for teachers electing to retire under the RIP shall be paid in two equal installments with each installment paid on or about January 15 of the first and second calendar years following the retirement. A liability for severance payments due under the RIP have been recorded on the fund financial statements as a component of "compensated absences payable" and on the government-wide statement of net assets as a component of "long-term liabilities".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

In addition to severance payments, employees electing to retire under the RIP are entitled to a health care reimbursement arrangement (HRA) established by the District for the benefit of the retiring teachers and their spouses. Under the HRA, retiring teachers will receive payments, by year, in varying amounts between \$500 to \$5,300 which will be deposited by the District into a separate account established for the retired employee and their spouse. The HRA is effective until January 15, 2016 or until the retiree and his or her spouse become deceased. The amounts deposited to a retiree's account may be carried forward over to subsequent years and shall not be subject to forfeiture, except upon the death of both the retiree and his or her spouse. The HRA liability has been recorded in the general fund to the extent the health care costs are expected to be liquidated with expendable available resources. The remainder of the liability has been recorded on the government-wide statement of net assets as a component of "long-term liabilities". The total estimated liability under the HRA June 30, 2006 was \$5,740,000 of which \$1,109,000 is expected to become due within one year. A total of 147 employees have retired under the HRA as of June 30, 2006. The total HRA liability was calculated based upon required payments under the HRA for each applicable employee and has not been discounted to present value.

**G. 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, 2006 are a voted debt margin of \$42.199 million (including available funds of \$8.695 million) and an unvoted debt margin of \$880,000.

**NOTE 11 - COMPENSATED ABSENCES**

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Teachers and some administrators do not earn vacation time. Administrators, clerical, technical, and maintenance and operations employees with one or more years of service are entitled to vacation ranging from 5 to 25 days. Employees with less than one year of service earn one vacation day per month worked, not to exceed five days. Unused vacation is not cumulative to the next year.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-quarter of the accumulated sick leave for the first 120 days, one-fifth of sick leave for days between 121-215 and an additional 2 days for an employee with greater than 215 days accumulated to a maximum payout of 51 days.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% coinsured. The District has obtained coverage from commercial insurance carriers. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$ 1,000,000	\$ 0
Aggregate	2,000,000	0
Building and contents	292,055,014	10,000
Boiler and machinery	5,000,000	5,000
Fleet:		
Liability	1,000,000	0
Uninsured motorist	1,000,000	0
Comprehensive	1,000,000	250
Collision	1,000,000	500
Umbrella liability	10,000,000	0

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from fiscal year 2005.

**B. Shared Risk Pool**

The District is a participant in the Stark County Schools Council of Government (the "COG") for the purpose of obtaining benefits at a reduced premium for health care benefits. The District's insurance program for health care, through the COG, is administered by Mutual Health Services Company. Payments are made to the COG for monthly attachment point, monthly stop-loss premiums, and administrative charges. The fiscal agent of the COG is the Stark County Education Service Center. The Treasurer of the Stark County Educational Service Center pays Mutual Health Services monthly for the actual amount of claims processed, the stop-loss premium, and the administrative charges.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 12 - RISK MANAGEMENT - (Continued)**

**C. Workers' Compensation Program**

The District has participated in the Ohio Bureau of Workers' Compensation (Bureau) Retrospective Rating Plan since 1989, except for 1993 and 1997. The alternative rating program requires the District to pay only administrative charges to the Bureau, and in turn the district assumes the responsibility of paying all claims incurred during the policy period for up to ten years. After the tenth year, the Bureau will assume any existing claim for its duration. The District will be charged an actuarial amount for the claims transferred to the Bureau. The District's stop-loss coverage through the plan is limited to \$300,000 per claim stop-loss coverage with an annual aggregate.

The District's Workers' Compensation Trust internal service fund pays for all claims, claim reserves and administrative costs of the program. The Workers' Compensation Trust internal service fund generates revenues by charging each fund a percentage rate determined by the Bureau for the payroll during the reporting period. The claims liability is recorded based on an actuarial determination of future claims, review of five years of claim liabilities and claim payment trends including the settlement to the Bureau after the tenth year. Changes in claims activity for the past two fiscal years are as follows (amounts in 000's):

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2006	\$ 455	\$ 384	\$ (336)	\$ 503
2005	919	-	(464)	455

The Ohio Bureau of Workers' Compensation uses the Micro Insurance Reserving Analysis (MIRA) to estimate the reserves (liability) for future costs. The MIRA reserve (liability) can vary between years as it is based upon numerous factors which estimate the future cost of a particular claim at that point in time.

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System (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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That 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 (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 13 - PENSION PLANS – (Continued)**

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent 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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent 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 statutory maximum amounts, by the SERS' Retirement Board. The District's required contribution for pension obligations to SERS for fiscal years ended 2006, 2005, and 2004 were \$1.537 million, \$1.593 million, and \$1.454 million; 41.74 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$895,000 represents the unpaid pension contribution for fiscal year 2006 and is recorded as a liability.

**B. State Teachers Retirement System**

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 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 percent 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 13 - PENSION PLANS – (Continued)**

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent 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 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for fund pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$7.113 million, \$7.200 million and \$7.352 million; 82.86 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. \$1.219 million represents the unpaid pension contribution for fiscal year 2006 and is recorded as a liability. Contributions to the DC and Combined Plans for fiscal year 2006 were \$65,000 made by the District and \$137,000 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$547,000 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282.743 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 14 - POSTEMPLOYMENT BENEFITS – (Continued)**

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$727,000 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent 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 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006 were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of 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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING – (Continued)**

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 (amounts in 000's):

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ 125
Net adjustment for revenue accruals	728
Net adjustment for expenditure accruals	498
Net adjustment for other sources/uses	345
Adjustment for encumbrances	<u>796</u>
GAAP basis	<u>\$ 2,492</u>

**NOTE 16 - STATUTORY RESERVES**

The District 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.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks/instructional materials and capital acquisition. Disclosure of this information is required by state statute (amounts in 000's):

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ 87	\$ (41,375)
Current year set-aside requirement	1,681	1,681
Qualifying off-sets	-	(306)
Qualifying disbursements	<u>(1,548)</u>	<u>-</u>
Total	<u>\$ 220</u>	<u>\$ (40,000)</u>
 Balance carried forward to fiscal 2007	 <u>\$ 220</u>	 <u>\$ (40,000)</u>

During fiscal year 2001, the District issued \$46.706 million related to the Ohio Schools Facilities Commission project under taken by the District. Those proceeds may be used to reduce the capital acquisition reserve until the debt proceeds are spent.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 17 - CONTRACTUAL COMMITMENTS**

As of June 30, 2006, the District entered into various contractual commitments for the OSFC Project described in Note 10A. A summary of the primary contractual commitments outstanding at June 30, 2006, follows (amounts in 000's):

<u>Project</u>	Contractual Cost Estimate	Total Estimated Costs at June 30	Remaining Contractual Commitment
Claredon Elementary	\$ 7,085	\$ 2,387	\$ 4,698
Harter Elementary	7,852	7,265	587
McGregor Elementary	6,872	2,906	3,966
Mason Elementary	79	79	-
Summit Elementary	8,167	7,521	646
Youtz Elementary	4,626	4,433	193
Hartford Middle	6,675	6,613	62
Souers Middle	288	288	-
McKinley High School	14,726	8,168	6,558
Timken High School	10,000	8,126	1,874
Wells	2,249	2,249	-
Fawcett Stadium	<u>574</u>	<u>574</u>	<u>-</u>
Totals	<u>\$ 69,193</u>	<u>\$ 50,609</u>	<u>\$ 18,584</u>

**NOTE 18 - 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 is 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.

**B. Litigation**

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

**NOTE 19 - SIGNIFICANT SUBSEQUENT EVENTS**

On December 1, 2006, the District made its sixth sinking fund payment on the QZAB's for the eventual retirement of the QZAB Series 2000 and 2001.

**CANTON CITY SCHOOL DISTRICT  
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**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

<b>Federal Grantor/ Sub Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Expenditures</b>	<b>Non-Cash Expenditures</b>
<b><u>U.S. Department of Education</u></b>						
<i>(Direct)</i>						
Impact Aid	84.041	N/A	\$21,970	-	\$21,970	-
Federal Pell Grant Program	84.063	N/A	550,928	-	580,974	-
<i>(Passed through the Ohio Department of Education)</i>						
Adult Education State Grant Program	84.002	043711ABS105C	-	-	3,621	-
		043711ABS105	-	-	29,482	-
		043711ABS106	338,227	-	338,227	-
		043711ABS205C	21,483	-	19,318	-
		043711ABS206	43,016	-	33,972	-
<i>Total Adult Education State Grant Program</i>			402,726	-	424,620	-
Title I Grants to Local Educational Agencies	84.010	043711C1SN06	18,994	-	17,402	-
		043711C1SK05	34,880	-	41,083	-
		043711C1S105	781,202	-	1,096,535	-
		043711C1SN05	6,018	-	9,028	-
		043711C1SK06	152,593	-	147,187	-
		043711C1SD06	72,286	-	66,413	-
		043711C1S106	35,633	-	19,002	-
		043711C1SD05	59,570	-	66,706	-
		043711C1S106	4,200,399	-	4,012,137	-
<i>Total Title I Grants to Local Educational Agencies</i>			5,361,575	-	5,475,493	-
Special Education Cluster: Special Education Grants to States	84.027	0437116BSF05	517,291	-	802,447	-
		0437116BSD05P	-	-	3,029	-
		0437116BSF06	1,717,687	-	1,706,077	-
		0437116BPB05	12,190	-	35,997	-
<i>Total Special Education Grants to State</i>			2,247,168	-	2,547,550	-
Special Education Preschool Grants	84.173	043711PGS106P	110,673	-	104,957	-
		043711PGS105P	-	-	16,253	-
<i>Total Special Education Preschool Grants</i>			110,673	-	121,210	-
<i>Total Special Education Cluster</i>			2,357,841	-	2,668,760	-
Vocational Education Basic Grants to States	84.048	04371120C206	64,261	-	65,938	-
		04371120C105	38,081	-	50,693	-
		04371120C106	333,804	-	314,612	-
		043711VECT02-24	10,000	-	-	-
		04371120C205	-	-	184	-
		04371120A0506	8,095	-	11,000	-
<i>Total Vocational Education Basic Grants to State</i>			454,241	-	442,427	-
Safe and Drug Free Schools and Communities National Program	84.184C	043711T4S105	3,580	-	277	-
Safe and Drug Free Schools and Communities State Grant	84.186	043711DRS106	88,845	-	80,781	-
		043711DRS105	2,895	-	14,594	-
<i>Total Safe and Drug Free Schools and Communities State Grant</i>			91,740	-	95,375	-

CONTINUED

**CANTON CITY SCHOOL DISTRICT  
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

<b>Federal Grantor/ Sub Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Receipts</b>	<b>Non-Cash Receipts</b>	<b>Expenditures</b>	<b>Non-Cash Expenditures</b>
Education for Homeless Children and Youth	84.196	043711HCS106 043711HCS105	\$59,437 41,615	- -	\$52,841 40,175	- -
<i>Total Education for Homeless Children and Youth</i>			101,052	-	93,016	-
Even Start State Educational Agencies	84.213	043711EVS106 043711EVS105	179,574 5,422	- -	163,160 20,948	- -
<i>Total Even Start State Educational Agencies</i>			184,996	-	184,108	-
21st Century Community Learning Centers	84.287	043711T1S106 043711T1S105	339,411 54,639	- -	261,469 51,087	- -
<i>Total 21st Century Community Learning Centers</i>			394,050	-	312,556	-
State Grants for Innovative Programs	84.298	043711C2S106 043711C2S105	3,992 -	- -	1,721 897	- -
<i>Total State Grants for Innovative Programs</i>			3,992	-	2,618	-
Education Technology State Grants	84.318	043711TJS106 043711TJS105 043711TJSL05 043711TJSL06	39,758 36,185 40,976 329,873	- - - -	50,279 66,670 82,297 328,513	- - - -
<i>Total Education Technology State Grants</i>			446,792	-	527,759	-
Comprehensive School Reform Demonstration	84.332	043711RFCC06 043711RFCC05 043711RFK306 043711RFK204 043711RFS304	328,148 25,688 23,726 11,173 -	- - - - -	322,628 34,274 20,796 14,192 5,518	- - - - -
<i>Total Comprehensive School Reform Demonstration</i>			388,735	-	397,408	-
Improving Teacher Quality State Grants	84.367	043711TRS105 043711TRS106	202,087 697,050	- -	199,507 690,301	- -
<i>Total Improving Teacher Quality State Grants</i>			899,137	-	889,808	-
Safe and Drug Free Schools National Program	84.184L	S1846020084 S1846020084	9,745 84,619	- -	9,745 141,373	- -
<i>Total Safe and Drug Free Schools National Program</i>			94,364	-	151,118	-
Fund for Improvement of Education (Genesis)	84.215K	U215K040102	3,698	-	3,698	-
Fund for Improvement of Education (Smaller Learning Communities)	84.215L	V215L042071	234,585	-	234,821	-
<i>Total Fund for Improvement of Education</i>			238,283	-	238,519	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	P334A000232 P334A000	177,024 416,505	- -	176,191 416,360	- -
<i>Total Gaining Early Awareness and Readiness For Undergraduate Programs</i>			593,529	-	592,551	-

CONTINUED

**CANTON CITY SCHOOL DISTRICT  
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Sub Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<i>(Passed through the National Council for Community and Education Partnership)</i>						
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334A000 OU20	\$25,000 -	- -	\$3,060 8,785	- -
<i>Total Gaining Early Awareness and Readiness For Undergraduate Programs</i>			25,000	-	11,845	-
Hurricane Education Recovery	84.938	HR012006	6,000	-	5,953	-
<b>Total U.S. Department of Education</b>			<u>12,620,531</u>	<u>-</u>	<u>13,117,155</u>	<u>-</u>
<b>U.S. Department of Agriculture</b> <i>(Passed through the Ohio Department of Education)</i>						
Food Donation	10.550	N/A	-	\$266,442	-	\$270,708
Child Nutrition Cluster:						
Child and Adult Care Food Program (Direct)	10.558	N/A	17,478	-	15,726	-
School Breakfast Program	10.553	N/A	863,447	-	863,447	-
National School Lunch Program	10.555	N/A	2,924,837	-	2,924,837	-
<i>Total Child Nutrition Cluster</i>			<u>3,805,762</u>	<u>-</u>	<u>3,804,010</u>	<u>-</u>
<b>Total U.S. Department of Agriculture</b>			<u>3,805,762</u>	<u>266,442</u>	<u>3,804,010</u>	<u>270,708</u>
<b>U.S. Department of Health and Human Services</b> <i>(Passed through the Ohio Department of Mental Retardation and Developmental Disabilities)</i>						
Medical Assistance Program	93.778	N/A	265,814	-	265,814	-
State Children's Insurance Program	93.767	N/A	11,726	-	11,726	-
<i>(Passed through the Ohio Department of Jobs and Family Services)</i>						
Temporary Assistance for Needy Families	93.558	009-06 009-196 009 04P1002 009-197	- 18,050 3,206 - 31,380	- - - - -	3,786 18,050 5,302 52,540 26,645	- - - - -
<i>Total Temporary Assistance for Needy Families</i>			<u>52,636</u>	<u>-</u>	<u>106,323</u>	<u>-</u>
<b>Total U.S. Department of Health &amp; Human Services</b>			<u>330,176</u>	<u>-</u>	<u>383,863</u>	<u>-</u>

CONTINUED

CANTON CITY SCHOOL DISTRICT  
STARK COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/ Sub Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>Corporation for National and Community Service</b>						
<i>(Passed Through the Ohio Department of Education)</i>						
Learn and Serve America - School and Community Based Programs	94.004	043711SVS105	\$1,188	-		-
		043711SVS106	7,141	-	\$12,671	-
<b>Total Corporation for National and Community Service</b>			<u>8,329</u>	<u>-</u>	<u>12,671</u>	<u>-</u>
<b>Total</b>			<u>\$16,764,798</u>	<u>\$266,442</u>	<u>\$17,317,699</u>	<u>\$270,708</u>

The accompanying notes are an integral part of this schedule.

**CANTON CITY SCHOOL DISTRICT  
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (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 DONATION PROGRAM**

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair value of the commodities received.

**NOTE C - CHILD NUTRITION CLUSTER**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

**NOTE D - MEDICAL ASSISTANCE PROGRAM**

Cash receipts from the U.S. Department of Health and Human Services for the Medical Assistance Program are commingled with local funds. It is assumed federal monies are expended first.

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# Mary Taylor, CPA

## Auditor of State

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

Canton City School District  
Stark County  
617 McKinley Avenue SW  
Canton, Ohio 44707

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Canton City School District, Stark County, Ohio, (the District) which collectively comprise the District's basic financial statements as of and for the year ended June 30, 2006, and have issued our report thereon dated March 9, 2007, wherein, we noted the District restated fund balance, capital assets and net assets as of June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 9, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2006-001. In a separate letter to the District's management dated March 9, 2007, we reported other matters related to noncompliance we deemed immaterial.

Canton City School District  
Stark County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA  
Auditor of State

March 9, 2007



# Mary Taylor, CPA

Auditor of State

## 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

Canton City School District  
Stark County  
617 McKinley Avenue SW  
Canton, Ohio 44707

To the Board of Education:

### Compliance

We have audited the compliance of 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 apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

The District's basic financial statements include the operations of Canton Academy Community School, Canton City Schools Digital Academy, and Canton Arts Academy Community School, which received \$334,308; \$152,000; and \$157,897, respectively, in federal awards which are not included in the Federal Awards Receipts and Expenditures Schedule for the year ended June 30, 2006. Our audit of federal awards, described below, did not include the operations of Canton Academy Community School, Canton City Schools Digital Academy, and Canton Arts Academy Community School because each component unit is legally separate from the primary government, which this report addresses, and because each expended less than \$500,000 of federal awards for the year ended June 30, 2006, they were not subject to OMB Circular A-133 audit requirements.

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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 Canton City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006.

### Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA  
Auditor of State

March 9, 2007

**CANTON CITY SCHOOL DISTRICT  
STARK COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

**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 noncompliance at the financial statement level (GAGAS)?</b>	Yes
<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>	Nutrition Cluster CFDA #'s 10.553, 10.555; Improving Teacher Quality CFDA # 84.367; Vocational Education Basic Grants to States CFDA # 84.048
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 527,652 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**

**FINDING NUMBER 2006-001**

**Material Noncompliance**

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

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

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

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

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

**FINDING NUMBER 2006-001 (Continued)**

During fiscal year 2006, 11 of 27 purchase orders tested, or 41%, were not certified by the Treasurer prior to incurring the obligation. The District should certify the availability of funds for expenditure and also implement the use of Then and Now Certificates as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41(D).

**Officials' Response:** The District is currently reviewing the purchase order process. A Then and Now certification process is also currently being considered to assist in reducing the volume of transactions not meeting this requirement. The District's goal is to implement procedural changes regarding this issue in fiscal year 2008.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
------------------------------------------------------------

None.

**CANTON CITY SCHOOL DISTRICT  
STARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2005-001	Ohio Rev. Code Section 5705.41 (D) - 24% of the expenditures tested were not properly certified	No	Repeated as item 2006-001





Mary Taylor, CPA  
Auditor of State

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  
JUNE 5, 2007