

**Canton Local School District**  
**Stark County, Ohio**

*Audited Financial Statements*

*June 30, 2011*





# Dave Yost • Auditor of State

Board of Education  
Canton Local School District  
4526 Ridge Avenue SE  
Canton, Ohio 44707

We have reviewed the *Independent Auditor's Report* of the Canton Local School District, Stark County, prepared by Rea & Associates, Inc., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

January 24, 2012

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**CANTON LOCAL SCHOOL DISTRICT  
STARK COUNTY  
JUNE 30, 2011**

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December 19, 2011

To the Board of Education  
Canton Local School District  
Canton, OH 44707

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Canton Local School District (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2011, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated December 19, 2011 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Hea & Associates, Inc.*



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The management's discussion and analysis of the Canton Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2011 are as follows:

- In total, net assets of governmental activities increased \$3,164,686 which represents a 493.49% increase from fiscal year 2010.
- General revenues accounted for \$20,255,777 in revenue or 70.25% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$8,576,896 or 29.75% of total revenues of \$28,832,673.
- The District had \$25,667,987 in expenses related to governmental activities; only \$8,576,896 of these expenses was offset by program specific charges for services and sales, grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$20,255,777 were adequate to provide for these programs.
- The District's only major governmental fund is the general fund. The general fund had \$22,818,216 in revenues and other financing sources and \$20,340,081 in expenditures. During fiscal 2011, the general fund's fund deficit balance decreased \$2,478,135 from a restated deficit of \$3,111,143 to a deficit balance of \$633,008.

**Using These Basic Financial Statements**

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

The *statement of net assets* and *statement of activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is by far the most significant fund, and the only governmental fund reported as a major fund.

**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 2011?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

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

***Fund Financial Statements***

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major fund. 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 fund is the general fund.

***Governmental Funds***

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

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

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

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-54 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**The District as a Whole**

The statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets at June 30, 2011 and June 30, 2010.

	<b>Net Assets</b>	
	Governmental Activities 2011	Governmental Activities 2010
<b><u>Assets</u></b>		
Current and other assets	\$ 12,668,226	\$ 10,425,218
Capital assets, net	<u>4,613,951</u>	<u>5,112,104</u>
Total assets	<u>17,282,177</u>	<u>15,537,322</u>
<b><u>Liabilities</u></b>		
Current liabilities	11,615,189	12,289,309
Long-term liabilities	<u>3,143,594</u>	<u>3,889,305</u>
Total liabilities	<u>14,758,783</u>	<u>16,178,614</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	4,500,544	4,701,115
Restricted	889,663	534,574
Unrestricted (deficit)	<u>(2,866,813)</u>	<u>(5,876,981)</u>
Total net assets (deficit)	<u>\$ 2,523,394</u>	<u>\$ (641,292)</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the District's assets exceeded liabilities by \$2,523,394. Of this total, \$889,663 is restricted in use.

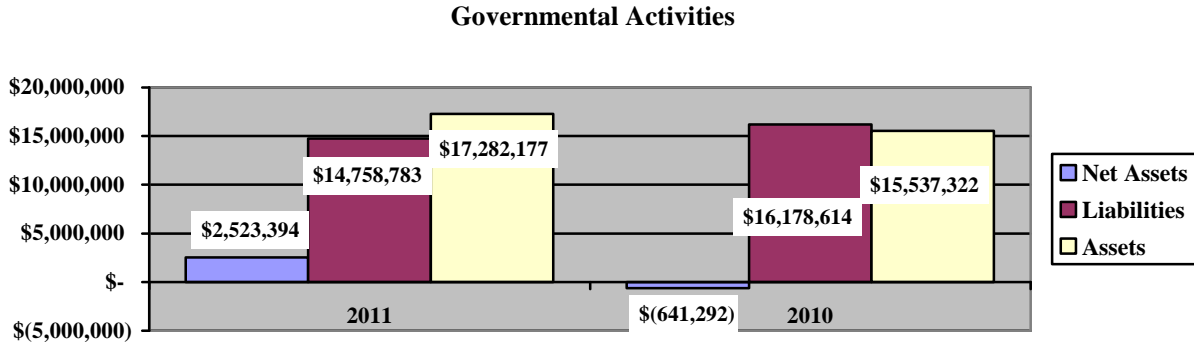
At year end, capital assets represented 26.70% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2011, were \$4,500,544. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$889,663, represents resources that are subject to external restriction on how they may be used. The remaining balance is a deficit of unrestricted net assets.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The graph below shows the District's assets, liabilities and net assets at June 30, 2011 and 2010.



The table below shows the change in net assets for fiscal years 2011 and 2010.

	<b>Change in Net Assets</b>	
	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 3,907,414	\$ 4,371,985
Operating grants and contributions	4,624,589	3,849,192
Capital grants and contributions	44,893	23,841
General revenues:		
Property taxes	8,635,028	7,970,524
Payments in-lieu of taxes	94,560	-
Grants and entitlements	11,400,193	11,957,965
Investment earnings	1,139	1,357
Miscellaneous	<u>124,857</u>	<u>147,598</u>
Total revenues	<u>\$ 28,832,673</u>	<u>\$ 28,322,462</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 9,818,783	\$ 11,328,148
Special	2,789,401	3,066,431
Vocational	1,756,825	1,864,033
Adult / continuing	1,000	1,000
Other	676,568	781,828
Support services:		
Pupil	1,292,532	1,952,694
Instructional staff	1,023,012	1,256,288
Board of education	31,050	21,646
Administration	1,931,057	1,923,441
Fiscal	335,955	307,353
Business	269,035	290,233
Operations and maintenance	2,220,002	2,459,486
Pupil transportation	1,140,955	1,076,416
Central	383,363	366,938
Operation of non-instructional services:		
Other non-instructional services	52,323	53,125
Food service operations	1,175,685	1,166,894
Extracurricular activities	688,698	805,625
Interest and fiscal charges	<u>81,743</u>	<u>67,991</u>
Total expenses	<u>25,667,987</u>	<u>28,789,570</u>
Change in net assets	3,164,686	(467,108)
Net assets (deficit) at beginning of year	<u>(641,292)</u>	<u>(174,184)</u>
Net assets (deficit) at end of year	<u>\$ 2,523,394</u>	<u>\$ (641,292)</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$3,164,686. Total governmental expenses of \$25,667,987 were offset by program revenues of \$8,576,896 and general revenues of \$20,255,777. Program revenues supported 33.41% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, payment in lieu of taxes and unrestricted grants and entitlements. These revenue sources represent 69.82% of total governmental revenue.

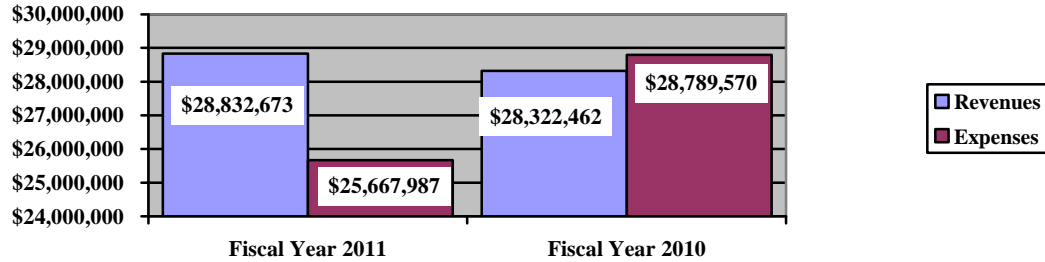
The largest expense of the District is for instructional programs. Instruction expenses totaled \$15,042,577 or 58.60% of total governmental expenses for fiscal year 2011. Expenses related to instruction decreased \$1,998,863 due to the closing of the McDannel Elementary. Approximately 27 full and part time positions were eliminated and not replaced during fiscal year 2011.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The graph below presents the District's governmental activities revenues and expenses for fiscal years 2011 and 2010.

**Governmental Activities - Revenues and Expenses**



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**Governmental Activities**

	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 9,818,783	\$ 6,721,356	\$ 11,328,148	\$ 9,041,636
Special	2,789,401	853,283	3,066,431	1,095,033
Vocational	1,756,825	567,347	1,864,033	1,365,506
Adult / continuing	1,000	554	1,000	(17,664)
Other	676,568	672,026	781,828	747,425
Support services:				
Pupil	1,292,532	1,233,942	1,952,694	1,397,239
Instructional staff	1,023,012	627,575	1,256,288	867,696
Board of education	31,050	4,203	21,646	21,646
Administration	1,931,057	1,619,568	1,923,441	1,528,998
Fiscal	335,955	335,955	307,353	51,507
Business	269,035	263,982	290,233	286,900
Operations and maintenance	2,220,002	2,083,908	2,459,486	2,050,326
Pupil transportation	1,140,955	1,108,779	1,076,416	1,028,820
Central	383,363	313,722	366,938	339,641
Operation of non-instructional services:				
Other non-instructional services	52,323	12,150	53,125	26,944
Food service operations	1,175,685	27,739	1,166,894	49,940
Extracurricular activities	688,698	563,259	805,625	594,968
Interest and fiscal charges	81,743	81,743	67,991	67,991
<b>Total expenses</b>	<b><u>\$ 25,667,987</u></b>	<b><u>\$ 17,091,091</u></b>	<b><u>\$ 28,789,570</u></b>	<b><u>\$ 20,544,552</u></b>

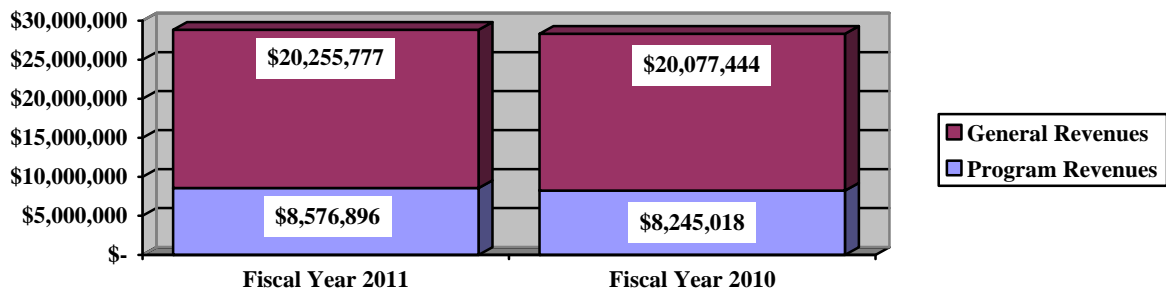
**CANTON LOCAL SCHOOL DISTRICT  
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The dependence upon tax and other general revenues for governmental activities is apparent, 58.59% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 66.59%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio, 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 2011 and 2010.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund deficit of \$(85,642), which is a higher balance than last year's total restated deficit balance of \$2,951,265 (as described in Note 3B). The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010.

	Fund Balance (Deficit) <u>June 30, 2011</u>	Retated Fund Balance (Deficit) <u>June 30, 2010</u>	<u>Increase</u>
General	\$ (633,008)	\$ (3,111,143)	\$ 2,478,135
Other governmental	<u>547,366</u>	<u>159,878</u>	<u>387,488</u>
Total	<u>\$ (85,642)</u>	<u>\$ (2,951,265)</u>	<u>\$ 2,865,623</u>

**General Fund**

The District's general fund's fund balance increased \$2,478,135 from a restated deficit balance of \$3,111,143 to a deficit balance of \$633,008. The table that follows assists in illustrating the financial activities and fund balance of the general fund. In fiscal year 2011, the District reported an increase in tax revenues due to an increase in the collections of real estate and public utility personal property taxes. Tuition revenues increased due to an increase in revenues related to open enrollment. Other revenues decreased in fiscal year 2011 because of decreased fees for services and staff contributions. Expenditures decreased due to staff reductions and other cost-saving measures primarily due to the closing of the McDannel Elementary. Approximately 27 full and part time positions were eliminated and not replaced during fiscal year 2011.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	2011	Restated 2010	Increase (Decrease)	Percentage Change
	<u>Amount</u>	<u>Amount</u>		
<b><u>Revenues</u></b>				
Taxes	\$ 8,068,446	\$ 7,374,466	\$ 693,980	9.41 %
Tuition	1,492,961	1,132,777	360,184	31.80 %
Earnings on investments	1,139	1,357	(218)	(16.06) %
Intergovernmental	12,357,305	12,232,579	124,726	1.02 %
Other revenues	<u>869,529</u>	<u>1,038,248</u>	<u>(168,719)</u>	(16.25) %
 Total	 <u>\$ 22,789,380</u>	 <u>\$ 21,779,427</u>	 <u>\$ 1,009,953</u>	 4.64 %
 <b><u>Expenditures</u></b>				
Instruction	\$ 12,250,658	\$ 13,381,909	\$ (1,131,251)	(8.45) %
Support services	7,530,722	7,699,294	(168,572)	(2.19) %
Operation of non-instructional	-	3,546	(3,546)	(100.00) %
Extracurricular activities	<u>558,701</u>	<u>661,544</u>	<u>(102,843)</u>	(15.55) %
 Total	 <u>\$ 20,340,081</u>	 <u>\$ 21,746,293</u>	 <u>\$ (1,406,212)</u>	 (6.47) %

***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 2011, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$21,573,411, which was the same as the original budgeted revenues and other financing sources. Actual revenues and other financing sources for fiscal 2011 were \$22,215,501 which was \$642,090 higher than the final budgeted revenues.

General fund original appropriations of \$21,621,653 were decreased to \$21,346,683 in the final budget. The actual budget basis expenditures for fiscal year 2011 totaled \$21,171,683, which was \$175,000 less than the final budgeted appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2011, the District had \$4,613,951 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The following table shows fiscal 2011 balances compared to 2010:

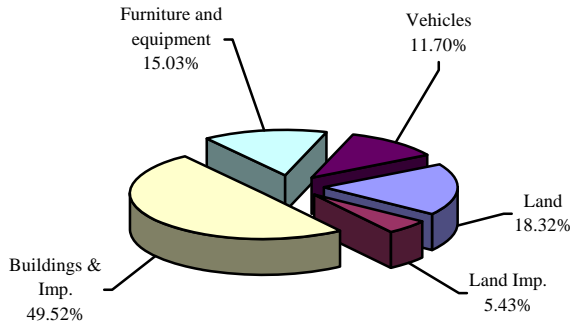
**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	2011	2010
Land	\$ 845,089	\$ 764,570
Land improvements	250,377	299,040
Building and improvements	2,285,379	2,607,320
Furniture and equipment	693,305	837,960
Vehicles	539,801	603,214
<b>Total</b>	<b>\$ 4,613,951</b>	<b>\$ 5,112,104</b>

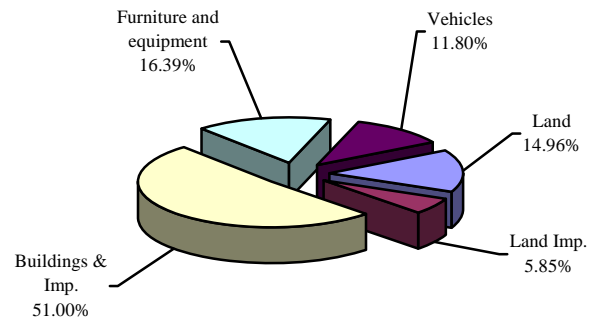
The overall decrease in capital assets of \$498,153 is due to depreciation expense of \$452,042 and disposals (net of accumulated depreciation) of \$173,343 exceeding capital outlays of \$127,232. Primarily due to the selling of the McDannel Elementary and the furniture and equipment that it contained.

The graphs below present the District's capital assets for fiscal years 2011 and 2010.

**Capital Assets - Governmental Activities  
2011**



**Capital Assets - Governmental Activities  
2010**



See Note 9 to the basic financial statements for additional information on the District's capital assets.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

***Debt Administration***

At June 30, 2011, the District had \$74,747 in capital lease obligations outstanding, \$701,767 in energy conservation notes outstanding and \$86,385 in OWDA loans outstanding. Of this total, \$92,963 is due within one year and \$769,936 is due in greater than one year. The following table summarizes the outstanding obligations for fiscal year 2011 compared to 2010.

**Outstanding Debt, at Year End**

	Governmental Activities 2011	Governmental Activities 2010
Energy conservation notes	\$ 701,767	\$ 752,274
Tax anticipation notes	-	30,000
OWDA loan	86,385	90,451
Capital lease obligations	74,747	342,329
Total	\$ 862,899	\$ 1,215,054

At June 30, 2011, the District's overall legal debt margin was \$25,214,500 with an unvoted debt margin of \$280,161.

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

**Current Financial Related Activities**

The voters of the District approved the renewal of a combined five-year operating and permanent improvement levy on May 3, 2011. Funds are to be used for operational costs, building maintenance and repairs, and equipment replacement. Nine tenths of a mill (approximately \$238,000 annually) is dedicated to the purchase of new classroom technology and related equipment.

As a result of the continuing decline in student enrollment, the Board decided to implement several cost-saving measures. Beginning with the 2010-11 school year, the fifth grade was relocated from Walker Elementary to Faircrest Middle School; and the kindergarten and first grade were relocated from Amos McDannel Elementary to Walker Elementary. The District will now operate one elementary, one middle school, and one high school. In February, 2011, the Board sold the Amos McDannel Elementary and a portion of the land to Canton Township. The Board retained the portion of the land that contained the softball diamond and tennis courts. Despite the loss of Federal stimulus funds, the financial condition of the district has improved dramatically. No further staff reductions or restructuring is currently planned. Collective bargaining agreements that are in effect to June 30, 2014 contain either wage freezes or very small increases for staff.

During fiscal year 2011, the billing process related to the Multi-County Juvenile Center changed. This change helped alleviate cash flow issues caused by the previous billing process. Due to the change, revenues received were recognized as charges for services in the current fiscal year and will be going forward. In the past revenues were recognized as tuition.

**The District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, 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. A. Michael Bichsel, Treasurer, Canton Local School District, 4526 Ridge Avenue SE, Canton, OH 44707.

**BASIC  
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS  
JUNE 30, 2011

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 2,073,603
Receivables:	
Taxes . . . . .	9,239,117
Payment in lieu of taxes . . . . .	94,560
Accounts . . . . .	30,056
Loans. . . . .	95,770
Intergovernmental . . . . .	1,115,495
Inventory held for resale . . . . .	19,625
Capital assets:	
Land. . . . .	845,089
Depreciable capital assets, net. . . . .	3,768,862
Capital assets, net . . . . .	<u>4,613,951</u>
 Total assets. . . . .	 <u>17,282,177</u>
<b>Liabilities:</b>	
Accounts payable. . . . .	75,258
Accrued wages and benefits . . . . .	2,719,438
Pension obligation payable. . . . .	677,798
Intergovernmental payable . . . . .	220,367
Unearned revenue . . . . .	7,889,326
Accrued interest payable . . . . .	33,002
Long-term liabilities:	
Due within one year. . . . .	438,726
Due in more than one year . . . . .	2,704,868
 Total liabilities . . . . .	 <u>14,758,783</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	4,500,544
Restricted for:	
Capital projects . . . . .	383,895
State funded programs. . . . .	169,701
Federally funded programs . . . . .	272,320
Student activities . . . . .	14,204
Other purposes . . . . .	49,543
Unrestricted (deficit) . . . . .	<u>(2,866,813)</u>
 Total net assets . . . . .	 <u>\$ 2,523,394</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

		<b>Program Revenues</b>				<b>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</b>
<b>Expenses</b>	<b>Charges for Services and Sales</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	
<b>Governmental activities:</b>						
Instruction:						
Regular . . . . .	\$ 9,818,783	\$ 2,048,608	\$ 1,047,410	\$ 1,409	\$ (6,721,356)	
Special . . . . .	2,789,401	260,281	1,675,837	-	(853,283)	
Vocational . . . . .	1,756,825	610,087	579,391	-	(567,347)	
Adult/continuing. . . . .	1,000	-	446	-	(554)	
Other . . . . .	676,568	-	4,542	-	(672,026)	
Support services:						
Pupil. . . . .	1,292,532	2,909	55,681	-	(1,233,942)	
Instructional staff . . . . .	1,023,012	136,609	258,828	-	(627,575)	
Board of education . . . . .	31,050	26,847	-	-	(4,203)	
Administration. . . . .	1,931,057	145,153	166,336	-	(1,619,568)	
Fiscal. . . . .	335,955	-	-	-	(335,955)	
Business. . . . .	269,035	4,797	256	-	(263,982)	
Operations and maintenance . . . . .	2,220,002	89,785	11,127	35,182	(2,083,908)	
Pupil transportation. . . . .	1,140,955	472	31,704	-	(1,108,779)	
Central . . . . .	383,363	9,375	51,964	8,302	(313,722)	
Operation of non-instructional services:						
Other non-instructional services . . . . .	52,323	17,690	22,483	-	(12,150)	
Food service operations . . . . .	1,175,685	429,601	718,345	-	(27,739)	
Extracurricular activities. . . . .	688,698	125,200	239	-	(563,259)	
Interest and fiscal charges . . . . .	81,743	-	-	-	(81,743)	
Totals . . . . .	\$ 25,667,987	\$ 3,907,414	\$ 4,624,589	\$ 44,893	(17,091,091)	
 <b>General revenues:</b>						
Property taxes levied for:						
General purposes . . . . .					8,070,950	
Debt service. . . . .					83,005	
Capital outlay. . . . .					481,073	
Payment in lieu of taxes . . . . .					94,560	
Grants and entitlements not restricted						
to specific programs . . . . .					11,400,193	
Investment earnings . . . . .					1,139	
Miscellaneous . . . . .					124,857	
Total general revenues . . . . .					20,255,777	
Change in net assets . . . . .					3,164,686	
<b>Net assets (deficit) at beginning of year . . . . .</b>					(641,292)	
<b>Net assets at end of year . . . . .</b>					\$ 2,523,394	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 1,430,498	\$ 643,105	\$ 2,073,603
Receivables:			
Taxes. . . . .	8,755,145	483,972	9,239,117
Payment in lieu of taxes . . . . .	94,560	-	94,560
Accounts . . . . .	22,056	8,000	30,056
Loans . . . . .	95,770	-	95,770
Intergovernmental. . . . .	306,572	808,923	1,115,495
Due from other funds . . . . .	379,869	-	379,869
Inventory held for resale. . . . .	-	19,625	19,625
Total assets . . . . .	<u>\$ 11,084,470</u>	<u>\$ 1,963,625</u>	<u>\$ 13,048,095</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 25,385	\$ 49,873	\$ 75,258
Accrued wages and benefits. . . . .	2,456,706	262,732	2,719,438
Compensated absences payable . . . . .	138,240	19,609	157,849
Early retirement incentive payable . . . . .	25,619	-	25,619
Pension obligation payable . . . . .	580,528	97,270	677,798
Intergovernmental payable . . . . .	156,211	64,156	220,367
Unearned revenue. . . . .	7,488,475	400,851	7,889,326
Deferred revenue . . . . .	846,314	141,899	988,213
Due to other funds . . . . .	-	379,869	379,869
Total liabilities. . . . .	<u>11,717,478</u>	<u>1,416,259</u>	<u>13,133,737</u>
<b>Fund Balances:</b>			
Nonspendable:			
Materials and supplies inventory. . . . .	-	19,625	19,625
Restricted:			
Capital improvements . . . . .	-	351,366	351,366
Public school preschool . . . . .	-	1,131	1,131
Special education . . . . .	-	66,068	66,068
Targeted academic assistance . . . . .	-	81,670	81,670
Vocational education. . . . .	-	20,882	20,882
Other purposes. . . . .	-	224,439	224,439
Extracurricular. . . . .	-	14,204	14,204
Assigned:			
Student instruction . . . . .	126,720	-	126,720
Student and staff support. . . . .	166,796	-	166,796
Extracurricular activities . . . . .	1,563	-	1,563
Public school support . . . . .	29,808	-	29,808
Other purposes. . . . .	10,787	-	10,787
Unassigned (deficit). . . . .	(968,682)	(232,019)	(1,200,701)
Total fund balances (deficit) . . . . .	<u>(633,008)</u>	<u>547,366</u>	<u>(85,642)</u>
Total liabilities and fund balances . . . . .	<u>\$ 11,084,470</u>	<u>\$ 1,963,625</u>	<u>\$ 13,048,095</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2011

<b>Total governmental fund balances</b>		\$	(85,642)
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			4,613,951
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Property taxes receivable	\$	536,003	
Payment in lieu of taxes receivable		94,560	
Intergovernmental receivable		357,650	
Total		988,213	988,213
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(2,087,687)	
Retirement incentive		(9,540)	
Capital lease obligations		(74,747)	
Energy conservation notes		(701,767)	
OWDA loan		(86,385)	
Accrued interest payable		(33,002)	
Total		(2,993,128)	(2,993,128)
<b>Net assets of governmental activities</b>		\$	2,523,394

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Taxes . . . . .	\$ 8,068,446	\$ 564,689	\$ 8,633,135
Tuition. . . . .	1,492,961	141,223	1,634,184
Earnings on investments. . . . .	1,139	50	1,189
Charges for services . . . . .	358,565	1,426,805	1,785,370
Extracurricular. . . . .	26,847	125,852	152,699
Classroom materials and fees . . . . .	79,014	-	79,014
Rental income . . . . .	89,785	-	89,785
Contributions and donations . . . . .	-	26,565	26,565
Other local revenues . . . . .	315,318	81,844	397,162
Intergovernmental - state . . . . .	12,318,287	339,324	12,657,611
Intergovernmental - federal . . . . .	39,018	3,315,080	3,354,098
Total revenues . . . . .	<u>22,789,380</u>	<u>6,021,432</u>	<u>28,810,812</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular. . . . .	8,080,306	1,733,898	9,814,204
Special . . . . .	1,938,476	918,462	2,856,938
Vocational . . . . .	1,565,796	148,653	1,714,449
Adult/continuing . . . . .	-	1,000	1,000
Other . . . . .	666,080	20,788	686,868
Support services:			
Pupil . . . . .	1,233,235	59,782	1,293,017
Instructional staff . . . . .	703,441	403,688	1,107,129
Board of education . . . . .	31,050	-	31,050
Administration . . . . .	1,556,978	380,818	1,937,796
Fiscal . . . . .	336,581	-	336,581
Business. . . . .	264,174	4,861	269,035
Operations and maintenance . . . . .	2,041,025	135,653	2,176,678
Pupil transportation . . . . .	1,059,108	14,420	1,073,528
Central . . . . .	305,130	84,762	389,892
Operation of non-instructional services:			
Other non-instructional services . . . . .	-	46,316	46,316
Food service operations. . . . .	-	1,209,369	1,209,369
Extracurricular activities . . . . .	558,701	129,714	688,415
Facilities acquisition and construction . . . . .	-	103,949	103,949
Debt service:			
Principal retirement. . . . .	-	352,155	352,155
Interest and fiscal charges . . . . .	-	50,573	50,573
Total expenditures . . . . .	<u>20,340,081</u>	<u>5,798,861</u>	<u>26,138,942</u>
Excess of revenues over expenditures . . . . .	<u>2,449,299</u>	<u>222,571</u>	<u>2,671,870</u>
<b>Other financing sources:</b>			
Sale of assets. . . . .	28,836	164,917	193,753
Total other financing sources . . . . .	<u>28,836</u>	<u>164,917</u>	<u>193,753</u>
Net change in fund balances. . . . .	2,478,135	387,488	2,865,623
<b>Fund balances (deficit) at beginning</b>			
<b>of year (restated) . . . . .</b>	<u>(3,111,143)</u>	<u>159,878</u>	<u>(2,951,265)</u>
<b>Fund balances (deficit) at end of year. . . . .</b>	<u>\$ (633,008)</u>	<u>\$ 547,366</u>	<u>\$ (85,642)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**CANTON LOCAL 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, 2011

<b>Net change in fund balances - total governmental funds</b>	\$	2,865,623
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.		
Capital asset additions	\$ 127,232	
Current year depreciation	(452,042)	
Total		(324,810)
 The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(173,343)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	1,893	
Payment in lieu of taxes	94,560	
Tuition	(28,991)	
Intergovernmental	33,727	
Total		101,189
 Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		352,155
 In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due.		
		(31,170)
 Some expenses reported in the statement of activities, such as compensated absences and future retirement obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		375,042
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>3,164,686</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON LOCAL 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, 2011

	<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 . . . . .	\$ 7,518,455	\$ 7,518,455	\$ 7,516,450	\$ (2,005)
Tuition . . . . .	-	1,259,800	1,497,261	237,461
Transportation fees . . . . .	1,259,800	-	-	-
Earnings on investments . . . . .	1,000	1,000	1,139	139
Classroom materials and fees . . . . .	500	500	169	(331)
Rental income . . . . .	50,000	50,000	89,785	39,785
Contract services . . . . .	60,000	60,000	276,128	216,128
Other local revenues . . . . .	200,500	200,500	317,132	116,632
Intergovernmental - state . . . . .	12,391,185	12,391,185	12,321,052	(70,133)
Intergovernmental - federal . . . . .	20,000	20,000	39,018	19,018
Total revenues . . . . .	<u>21,501,440</u>	<u>21,501,440</u>	<u>22,058,134</u>	<u>556,694</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	9,345,496	9,226,648	8,426,468	800,180
Special . . . . .	2,049,078	2,023,019	2,105,388	(82,369)
Vocational . . . . .	1,546,671	1,527,001	1,525,922	1,079
Other . . . . .	633,760	625,700	634,875	(9,175)
Support services:				
Pupil . . . . .	1,251,926	1,236,005	1,262,577	(26,572)
Instructional staff . . . . .	812,340	802,009	748,799	53,210
Board of education . . . . .	25,828	25,500	33,022	(7,522)
Administration . . . . .	1,491,357	1,472,391	1,534,844	(62,453)
Fiscal . . . . .	313,183	309,200	341,942	(32,742)
Business . . . . .	343,675	339,304	268,653	70,651
Operations and maintenance . . . . .	2,201,778	2,173,777	2,268,592	(94,815)
Pupil transportation . . . . .	1,046,255	1,032,949	1,119,861	(86,912)
Central . . . . .	332,187	327,962	322,836	5,126
Extracurricular activities . . . . .	596,816	589,226	566,546	22,680
Total expenditures . . . . .	<u>21,990,350</u>	<u>21,710,691</u>	<u>21,160,325</u>	<u>550,366</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(488,910)</u>	<u>(209,251)</u>	<u>897,809</u>	<u>1,107,060</u>
<b>Other financing sources (uses):</b>				
Refund of prior year's expenditures . . . . .	43,271	43,271	128,531	85,260
Refund of prior year's receipts . . . . .	368,697	364,008	(11,358)	(375,366)
Sale of capital assets . . . . .	28,700	28,700	28,836	136
Total other financing sources (uses) . . . . .	<u>440,668</u>	<u>435,979</u>	<u>146,009</u>	<u>(289,970)</u>
Net change in fund balance . . . . .	(48,242)	226,728	1,043,818	817,090
<b>Fund balance at beginning of year (restated).</b>	59,605	59,605	59,605	-
<b>Prior year encumbrances appropriated . . .</b>	146,683	146,683	146,683	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 158,046</u>	<u>\$ 433,016</u>	<u>\$ 1,250,106</u>	<u>\$ 817,090</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON LOCAL SCHOOL DISTRICT**  
**STARK COUNTY, OHIO**  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2011

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
<b>Assets:</b>		
Current assets:		
Equity in pooled cash and cash equivalents . . . . .	\$ 119,292	\$ 40,520
Due from other governments. . . . .	-	56,133
Total assets. . . . .	<u>119,292</u>	<u>\$ 96,653</u>
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 883
Loan payable . . . . .	-	95,770
Total liabilities . . . . .	<u>-</u>	<u>\$ 96,653</u>
<b>Net assets:</b>		
Held in trust for scholarships. . . . .	<u>119,292</u>	
Total net assets . . . . .	<u>\$ 119,292</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<b>Private Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 125
Gifts and contributions . . . . .	19,490
Total additions . . . . .	19,615
 <b>Deductions:</b>	
Scholarships awarded . . . . .	17,562
Change in net assets . . . . .	2,053
<b>Net assets at beginning of year . . . . .</b>	<b>117,239</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 119,292</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

The Canton Local 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 is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District is governed by a five-member Board of Education (the Board) elected by its citizens, which is responsible for the provision of public education to residents of the District.

The District ranks as the 220<sup>th</sup> largest by total enrollment among the 918 public school districts and community schools in the State. The District employs 97 non-certified and 168 certified employees to provide services to approximately 2,215 students in grades K through 12 and various community groups. The District is located in Canton Township, Stark County, Ohio and serves an area of approximately 25 square miles. The District operates one elementary school, one middle school and one high school.

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

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

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39 "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, vocational programs and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the 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 budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units.

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

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

The following organizations are described due to their relationship to the District:

*JOINTLY GOVERNED ORGANIZATIONS*

Stark/Portage Area Computer Consortium (SPARCC)

SPARCC is a jointly governed organization created as a regional council of governments pursuant to State Statutes made up of public school districts and County Boards of Education from Stark, Portage and Carroll Counties. The primary function of SPARCC is to provide data processing services to its member districts with the major emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by SPARCC include student scheduling, registration, grade reporting, and test scoring. Each member district pays an annual fee for the services provided by SPARCC.

SPARCC is governed by a Board of Directors comprised of each Superintendent within the Consortium. The Stark County Educational Service Center serves as the fiscal agent of the Consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and financing of SPARCC is limited to its voting authority and any representation it may have on the Board of Directors. The continued existence of SPARCC is not dependent on the District's continued participation and no equity interest exists. Financial information can be obtained by writing the Stark/Portage Area Computer Consortium, 2100 38<sup>th</sup> Street NW, Canton, Ohio 44709.

Stark County Tax Incentive Review Council (SCTIRC)

SCTIRC is a jointly governed organization, created as a regional council of governments pursuant to State statutes. SCTIRC has 24 members, consisting of three members appointed by the County Commissioners, four members appointed by municipal corporations, ten members appointed by township trustees, one member from the county auditor's office and six members appointed by Boards of Education located within the enterprise zones of Stark County. The SCTIRC reviews and evaluates the performance of each Enterprise Zone Agreement. This body is advisory in nature and cannot directly impact an existing Enterprise Zone Agreement; however, the Council can make written recommendations to the legislative authority that approved the agreement. There is no cost associated with being a member of this Council. The continued existence of the SCTIRC is not dependent upon the District's continued participation and no measurable equity interest exists.

*PUBLIC ENTITY RISK POOLS*

Risk Sharing Pool

The Stark County Schools Council of Governments Health Benefit Plan is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services.

**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Insurance Purchasing Pool

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

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

The following is the District's major governmental fund:

General fund -The general fund is used to account for and report all financial resources not accounted for and reported 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.

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

*PROPRIETARY FUNDS*

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

**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

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

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

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



**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**D. Basis of Accounting**

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

*Revenues - Exchange and Nonexchange Transactions* - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the 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.

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

Property taxes for which there is an enforceable legal claim as of June 30, 2011, but which were levied to finance fiscal year 2012 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2011 are recorded as deferred revenue in the governmental funds.

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

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

**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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 budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present the general fund's budgetary statement comparison at the fund and function level of expenditures.

Tax Budget:

On October 25, 2005, the Stark County Budget Commission voted to waive the requirement that school districts adopt a tax budget as required by Section 5705.28 of the Ohio Revised Code, by January 15<sup>th</sup> and the filing by January 20<sup>th</sup>. The Budget Commission now requires an alternate tax budget be submitted by January 20<sup>th</sup>, which no longer requires specific Board approval.

Estimated Resources:

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

**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Appropriations:

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

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

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

Lapsing of Appropriations:

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

**F. Cash and Cash Equivalents**

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

During fiscal year 2011, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

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 shares price which is the price the investment could be sold for on June 30, 2011.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2011 amounted to \$1,139, which includes \$6 assigned from other District funds.

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

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

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

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

**G. Inventory**

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method which means that the cost of inventory items are recorded as an expenditure in the governmental funds when consumed.

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

**H. Capital Assets**

General capital assets are those assets specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District 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.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	50 years
Buildings and improvements	50 years
Furniture and equipment	5 - 20 years
Vehicles	15 - 20 years

**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable." The District had no interfund loans receivable/payable at June 30, 2011.

On fund financial statements, receivables and payables resulting from short-term interfund loans from the general fund to cover negative cash balances in other governmental funds are classified as "due to/from other funds." These amounts are eliminated in the governmental activities columns on the statement of net assets.

On fund financial statements, receivables and payables resulting from short-term interfund loans from the general fund to cover negative cash balances in agency are classified as "loans receivable/payable."

**J. Compensated Absences**

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the "termination payment method". The termination payment method accrues a liability that is based entirely on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit. The estimate is based on past experience. This estimate (ratio) is then applied to employee's sick leave balances and current wages at fiscal year end.

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

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

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**L. Fund Balance**

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

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

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

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

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

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes include amounts restricted for the district agency and special trust.

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

**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 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. At fiscal year end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is nonspendable on the fund financial statements by an amount equal to the carrying value of the asset.

**O. 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.

**P. Vocational Education**

The District has entered into a career technical education agreement with the Sandy Valley Local School District, Perry Local School District and the Osnaburg Local School District to provide career technical education programs for students of the three participating districts. The District is the principal agency for the programs and is responsible for the physical facilities of the programs. For fiscal year 2011, in accordance with the agreement, the District was to receive a service charge equal to \$237,000 from the Sandy Valley Local School District, \$237,000 from the Perry Local School District and \$95,000 from the Osnaburg Local School District related to providing these programs. Actual service charges are reduced by all State aid received by the District for Sandy Valley Local School District, Perry Local School District and Osnaburg Local School District students attending the District for these programs.

**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**Q. Interfund Activity**

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

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

**R. Extraordinary and Special Items**

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2011, the District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the District.



**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**B. Fund Reclassifications**

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the District's governmental fund balances as previously reported:

	General	Nonmajor Governmental	Total Governmental
Fund balance as previously reported	\$ (3,144,356)	\$ 193,091	\$ (2,951,265)
Fund reclassifications:			
Public school support fund	36,381	(36,381)	-
Uniform school supplies fund	(3,168)	3,168	-
Total fund reclassifications	33,213	(33,213)	-
Restated fund balance at July 1, 2010	\$ (3,111,143)	\$ 159,878	\$ (2,951,265)

The fund reclassifications did not have an effect on net assets as previously reported.

**C. Budgetary Prior Period Adjustment**

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The District has elected to report only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary fund balance is required. The restatement of the general fund's budgetary-basis fund balance at June 30, 2010 is as follows:

**Budgetary Basis**

	General Fund
Fund balance at June 30, 2010	\$ 71,570
Funds budgeted elsewhere	(11,965)
Restated fund balance at July 1, 2010	\$ 59,605

**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**D. Deficit Fund Balances**

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Major fund</u>	<u>Deficit</u>
General fund	\$ 633,008
 <u>Nonmajor governmental funds</u>	
Food service	119,428
Other grants	91,686
Stimulus Title II-D	128
Miscellaneous federal grants	1,152

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.

**E. Compliance**

1. Contrary to Ohio Revised Code Section 5705.10, the District has negative cash balances at year end and throughout the year in the other grants fund (a nonmajor governmental fund) and in the district agency fund (a nonmajor governmental fund).

Previously, in the case of the Multi-County Juvenile Attention Center Fund, the cost of all services were paid, then the participating districts were invoiced for their costs after the services have been provided and paid. Beginning in 2011 this process was modified, such that the district bills the Attention Center directly. This resulted in a decrease in the negative cash balance from approximately \$1.3 million at the end of fiscal year 2010 to approximately \$117,000 at the end of fiscal year 2011. The district has shown great efforts to reduce this negative cash balance. The 022 fund represents suspended community schools that the district is the fiscal agent for.

2. Contrary to Ohio Revised Code 5705.41(B), the District had expenditures exceeding appropriations throughout the year.

This issue is related to the negative fund balances. Certain funds are required to be spent before the revenues are received, resulting in a negative fund balance. Appropriations cannot exceed the amount of revenue received so the appropriations are limited to the amount of revenue received. This causes the expenditures to exceed the appropriation level. The General Fund does not have adequate resources to advance to this fund to avoid having expenditures exceed appropriations.

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

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

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

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

**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Protection of the 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.

**A. Cash on Hand**

At year end, the District had \$2,512 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

**B. Deposits with Financial Institutions**

At June 30, 2011, the carrying amount of all District deposits was \$2,064,707. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$750,835 of the District's bank balance of \$2,182,357 was exposed to custodial risk as discussed below, while \$1,431,522 was covered by the FDIC.

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. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

**C. Investments**

As of June 30, 2011, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 166,196	\$ 166,196
Total	<u>\$ 166,196</u>	<u>\$ 166,196</u>

**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

*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.

*Credit Risk:* 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 investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 166,196	100.00
Total	<u>\$ 166,196</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,064,707
Investments	166,196
Cash on hand	<u>2,512</u>
Total	<u>\$ 2,233,415</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 2,073,603
Private-purpose trust funds	119,292
Agency funds	<u>40,520</u>
Total	<u>\$ 2,233,415</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund balances at June 30, 2011, as reported on the fund statements, consist of the following amounts due to/from other funds:

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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 379,869

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

At year end the general fund was due \$293,240 from the education jobs fund (a nonmajor governmental fund) for reimbursements of expenses.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

- B.** Loans between governmental funds and agency funds to cover negative cash balances in the agency funds are reported a “loans receivable/payable” on the financial statements. The District had the following loans outstanding at fiscal year-end:

<u>Loan from</u>	<u>Loan to</u>	<u>Amount</u>
General fund	Agency	\$ 95,770

This loan is expected to be repaid in the subsequent year as resources become available in the agency fund.

**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 property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in the District’s fiscal year ended June 30, 2011 (other than public utility property) generally represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone

**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

companies in calendar year 2010 were levied after October 1, 2009 on the value as of December 31, 2009. Amounts paid by multi-county taxpayers were due September 20, 2010. Single county taxpayers could pay

annually or semiannually. If paid semiannually, the first payment was due April 30, 2010, with the remainder payable by September 20, 2010.

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, 2011, are available to finance fiscal year 2011 operations. The amount available as an advance at June 30, 2011 was \$763,196 in the general fund and \$50,592 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2010 was \$211,200 in the general fund and \$14,200 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2011 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 unearned revenue.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been deferred.

The assessed values upon which the fiscal year 2011 taxes were collected are:

	2010 Second Half Collections		2011 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 239,308,150	85.06	\$ 239,000,270	85.31
Public utility personal	41,160,840	14.63	41,160,840	14.69
Tangible personal property	<u>885,820</u>	<u>0.31</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 281,354,810</u>	<u>100.00</u>	<u>\$ 280,161,110</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	48.20		48.20	
Permanent improvements	1.90		1.90	

**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2011 consisted of taxes, accounts (billings for user charged services and student fees), loans and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets are as follows:

**Governmental activities:**

Taxes	\$ 9,239,117
Payment in lieu of taxes	94,560
Accounts	30,056
Loans	95,770
Intergovernmental	<u>1,115,495</u>
Total	<u>\$ 10,574,998</u>

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

**NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

During a prior fiscal year, the District entered into capitalized lease agreements for the acquisition of computer equipment and buses.

These leases meet the criteria of capital leases as defined by FASB Codification, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, the leases were accounted for as a capital outlay expenditure and other financing source in the general fund. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements and as a reduction of the lease liability in the government-wide financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized in the statement of net assets in the amount of \$1,254,256 which is equal to the present value of the future minimum lease payments as of the date of inception. Accumulated depreciation as of June 30, 2011 was \$781,341, leaving a current book value of \$472,915. A corresponding liability was recorded in the statement of net assets. Principal payments in the 2011 fiscal year totaled \$267,582. This amount is reflected as debt service principal retirement in the permanent improvement fund (a nonmajor governmental fund).

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2011:

<u>Year Ending June 30,</u>	<u>Equipment</u>
2012	\$ 39,573
2013	<u>39,574</u>
Total minimum lease payment	79,147
Less: amount representing interest	<u>(4,400)</u>
Present value of minimum lease payments	<u>\$ 74,747</u>



**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>07/01/10</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/11</u>
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 764,570	\$ 80,519	\$ -	\$ 845,089
Total capital assets, not being depreciated	<u>764,570</u>	<u>80,519</u>	<u>-</u>	<u>845,089</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,223,527	-	(104,000)	1,119,527
Buildings and improvements	12,233,873	-	(681,684)	11,552,189
Furniture and equipment	2,773,041	46,713	(117,669)	2,702,085
Vehicles	<u>1,786,227</u>	<u>-</u>	<u>-</u>	<u>1,786,227</u>
Total capital assets, being depreciated	<u>18,016,668</u>	<u>46,713</u>	<u>(903,353)</u>	<u>17,160,028</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(924,487)	(19,758)	75,095	(869,150)
Buildings and improvements	(9,626,553)	(191,711)	551,454	(9,266,810)
Furniture and equipment	(1,935,081)	(177,160)	103,461	(2,008,780)
Vehicles	<u>(1,183,013)</u>	<u>(63,413)</u>	<u>-</u>	<u>(1,246,426)</u>
Total accumulated depreciation	<u>(13,669,134)</u>	<u>(452,042)</u>	<u>730,010</u>	<u>(13,391,166)</u>
Governmental activities capital assets, net	<u>\$ 5,112,104</u>	<u>\$ (324,810)</u>	<u>\$ (173,343)</u>	<u>\$ 4,613,951</u>

Deletions primarily relate to the selling of the Amos McDannel Elementary and the furniture and equipment that it contained.

**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 9 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 209,162
Special	8,709
Vocational	57,362

Support services:

Pupil	2,470
Instructional staff	2,801
Administration	2,544
Operations and maintenance	36,905
Pupil transportation	82,045
Central	484
Operation of non-instructional services	6,007
Extracurricular activities	28,641
Food service operations	<u>14,912</u>

Total depreciation expense \$ 452,042

**NOTE 10 - LONG-TERM OBLIGATIONS**

A. During the fiscal year 2011, the following changes occurred in governmental activities long-term obligations:

	<u>Balance</u> <u>07/01/10</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>06/30/11</u>	<u>Due in</u> <u>One Year</u>
Compensated absences	\$ 2,625,882	\$ -	\$ (380,346)	\$ 2,245,536	\$ 320,144
Early retirement incentive	48,369	15,811	(29,021)	35,159	25,619
Energy conservation notes	752,274	-	(50,507)	701,767	51,636
Tax anticipation notes	30,000	-	(30,000)	-	-
OWDA loan	90,451	-	(4,066)	86,385	4,669
Capital lease obligations	<u>342,329</u>	<u>-</u>	<u>(267,582)</u>	<u>74,747</u>	<u>36,658</u>
Total	<u><u>\$ 3,889,305</u></u>	<u><u>\$ 15,811</u></u>	<u><u>\$ (761,522)</u></u>	<u><u>\$ 3,143,594</u></u>	<u><u>\$ 438,726</u></u>

The capital lease obligation will be paid from the permanent improvement fund (a nonmajor governmental fund). Compensated absences and the early retirement incentive will be paid from the fund from which the employee is paid, primarily the general fund and food service fund (a nonmajor governmental fund).

**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

- B.** During fiscal year 2008, the District issued energy conservation notes to provide for energy improvements to various District buildings. The primary source of repayment of these notes is through energy savings as a result of the improvements.

Payments of principal and interest relating to the energy conservation notes are recorded as expenditures in the debt service fund (a nonmajor governmental fund). The unmatured obligations at year end are accounted for in the statement of net assets. The energy conservation project was primarily for various building maintenance and repairs, which have not been capitalized by the District. The District has capitalized \$38,660 in equipment spent from the note proceeds, the remaining expenditures were expensed as repairs and maintenance costs.

The following is a description of the District's energy conservation notes outstanding as of June 30, 2011:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 07/01/10</u>	<u>Issued in 2011</u>	<u>Retired in 2011</u>	<u>Balance 06/30/11</u>
Energy conservation notes	4.47%	12/14/07	12/1/22	\$ 752,274	\$ -	\$ (50,507)	\$ 701,767

The following is a summary of the District's future annual debt service requirements to maturity for the energy conservation notes:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 51,636	\$ 30,215	\$ 81,851
2013	52,790	27,881	80,671
2014	53,970	25,495	79,465
2015	55,176	23,056	78,232
2016	56,409	20,562	76,971
2017 - 2021	301,530	63,404	364,934
2022 - 2023	<u>130,256</u>	<u>5,854</u>	<u>136,110</u>
Total	<u>\$ 701,767</u>	<u>\$ 196,467</u>	<u>\$ 898,234</u>

- C.** During fiscal year 2008, the District issued tax anticipation notes for \$90,000. These notes are a general obligation of the District, for which the full faith and credit is pledged for repayment. These notes are considered a long-term obligation since the proceeds are used for capital acquisition and construction. Payments of principal and interest relating to the tax anticipation notes are recorded as expenditures in the permanent improvement fund (a nonmajor governmental fund).

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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

The following is a description of the notes payable outstanding at June 30, 2011:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 07/01/10</u>	<u>Issued in 2011</u>	<u>Retired in 2011</u>	<u>Balance 06/30/11</u>
Tax anticipation notes	3.11%	4/24/08	12/1/10	\$ 30,000	\$ -	\$ (30,000)	\$ -

- D.** During fiscal year 2010, the District entered into a debt financing arrangement through the Ohio Water Development Authority (OWDA) to fund the well project at Walker Elementary. The amounts due to the OWDA are being paid from the permanent improvement fund (a nonmajor governmental fund).

The following is a description of the OWDA loan outstanding as of June 30, 2011:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 07/01/10</u>	<u>Issued in 2011</u>	<u>Retired in 2011</u>	<u>Balance 06/30/11</u>
OWDA Loan	0.00%	1/1/10	7/1/29	\$ 90,451	\$ -	\$ (4,066)	\$ 86,385

The following is a summary of the District's future annual debt service requirements to maturity for the OWDA loan:

<u>Fiscal Year Ending</u>	<u>Principal</u>
2012	\$ 4,669
2013	4,669
2014	4,669
2015	4,669
2016	4,669
2017 - 2021	23,347
2022 - 2026	23,347
2027 - 2029	16,346
<b>Total</b>	<b>\$ 86,385</b>

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NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

**E. 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 code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530, which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2011, are an overall debt margin of \$25,214,500 and an unvoted debt margin of \$280,161.

**NOTE 11 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made to certified and classified employees for one-fourth of accrued, but unused sick leave credit up to a maximum 81 days.

**B. Early Retirement Incentive**

The District offered two early retirement incentives during the fiscal year. Eligible District employees may participate in only one of the two options.

The first option, option A, was a one-time cash retirement incentive equal to a percentage of the employee's 2010-2011 severance pay as calculated at the time of retirement. Payment of this enhanced severance pay will be paid in two payments. The first payment will be equal to 70 percent of the employee's 2010-2011 severance pay as calculated at the time of retirement and will be paid no later than sixty days from the date of termination. The second payment will be equal to 60 percent of the employee's 2010-2011 severance pay as calculated at the time of retirement and will be paid in August 2012. Employees who enrolled in the early retirement incentive plan must have submitted written notification to the Board on or before January 4, 2011. If this cash retirement incentive is implemented and an employee elects this option, he/she must waive any rights to option B and agree to not be considered for rehire. Two employees took advantage of this early retirement incentive option in fiscal year 2011.

**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 11 - OTHER EMPLOYEE BENEFITS - (Continued)**

The second option, option B, is an early retirement incentive plan for State Teacher’s Retirement System of Ohio (STRS Ohio) employees who are eligible for retirement under STRS Ohio guidelines and retire effective at the end of the fiscal year 2011. This is a one time opportunity for those eligible in fiscal years 2011. Employees who enroll in the early retirement incentive plan must submit written notification to the Board on or before January 4, 2011. If this STRS early retirement incentive is implemented and an employee elects this option, he/she must waive any rights to option A and their severance pay contained in option A and agree to not be considered for rehire. Three employees took advantage of this early retirement incentive option in fiscal year 2011.

**C. Insurance Benefits**

The District provides life insurance and accidental death and dismemberment insurance to most employees through Stark County Council of Governments Health Benefits Program. Coverage in the amount of \$75,000 is provided for administrators, \$70,000 is provided for certified employees and \$50,000 is provided for classified employees.

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees and natural disasters. During fiscal year 2011, the District contracted with Ohio Casualty Insurance Company for education liability, commercial auto coverage, property, general and excess liability insurance. The Ohio Casualty Insurance Company also covers boiler and machinery, inland marine, audio/visual equipment and musical instruments. Coverages under these policies are as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage Amount</u>
Ohio Casualty Insurance	Commercial Property	\$89,382,200
	Computers and Equipment	2,056,956
	Musical Instruments	310,413
	Commercial Auto - Garage Operations	2,000,000
	Non Auto - Garage Operations	1,000,000
	Uninsured Motorists Bodily Injury	60,000
	Uninsured Motorist Property Damage	7,500
	General Liability, in aggregate	5,000,000
	General Liability, per occurrence	5,000,000
	Fire Damage	100,000
	Medical Expense	5,000

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from last year.

**CANTON LOCAL SCHOOL DISTRICT  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

**B. Employee Health Benefits**

The District has contracted with Stark County Schools Council of Governments (a shared risk pool) (Note 2) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District's Board of Education pays all but \$125 of the monthly premium for family coverage and all but \$51 for single coverage. The \$125 and \$51 are paid by the employee. For fiscal year 2011, the District cost for paid premium for medical and dental was \$1,284 for family coverage and \$528 for single coverage, per month.

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

**C. Workers' Compensation**

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

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

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Media/Financial Reports*.

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

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Funding Policy - 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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$358,642, \$407,201 and \$297,338, respectively; 47.14 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**B. State Teachers Retirement System of Ohio**

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org) under *Publications*.

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.



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

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

Funding Policy - For fiscal year 2011, 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 recommendations 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 pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$1,473,086, \$1,577,631 and \$1,587,590, respectively; 81.90 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$33,366 made by the District and \$23,833 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Media/Financial Reports*.

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

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned.

Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010, and 2009 were \$110,625, \$82,169 and \$206,441, respectively; 47.14 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$23,079, \$24,215 and \$24,533, respectively; 47.14 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**B. State Teachers Retirement System of Ohio**

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) under *Publications* or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$113,314, \$121,356 and \$122,122, respectively; 81.90 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

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

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ 1,043,818
Net adjustment for revenue accruals	543,117
Net adjustment for expenditure accruals	693,966
Net adjustment for other sources/uses	(117,173)
Funds budgeted elsewhere	(8,194)
Adjustment for encumbrances	322,601
GAAP basis	\$ 2,478,135

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the special rotary fund, public school support fund and the uniform school supplies fund.

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

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**NOTE 16 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

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

**NOTE 17 - SET-ASIDES**

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 fiscal 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 fiscal year-end set-aside amounts for textbooks and capital improvements. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance June 30, 2010	\$ -	\$ -
Current year set-aside requirement	338,120	338,120
Contributions in excess of the current fiscal year set-aside requirement	-	-
Current year qualifying expenditures	(210,337)	(611,600)
Excess qualified expenditures from prior years	(181,562)	-
Current year offsets	-	(445,292)
Waiver granted by ODE	-	-
Prior year offset from bond proceeds	-	-
Total	<u>\$ (53,779)</u>	<u>\$ (718,772)</u>
Balance carried forward to fiscal year 2012	<u>\$ -</u>	<u>\$ -</u>
Set-aside balance June 30, 2011	<u>\$ -</u>	<u>\$ -</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**NOTE 17 - SET-ASIDES - (Continued)**

The District had qualifying disbursements and offsets during the fiscal year that reduced the textbook set-aside amount to below zero. Effective July 1, 2011, the textbook set-aside is no longer required and has been removed from existing law. This negative balance is therefore not being presented as being carried forward to the future fiscal year. Although the District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount to below zero for the capital improvements set-aside, this amount may not be used to reduce the set-aside requirement for future fiscal years. The negative balance is therefore not presented as being carried forward to future fiscal years.

**NOTE 18 - COMMITMENTS**

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

<u>Fund Type</u>	<u>Year-End Encumbrances</u>
General fund	\$ 335,783
Other governmental	<u>312,948</u>
Total	<u>\$ 648,731</u>

**NOTE 19 - SUBSEQUENT EVENT**

On September 1, 2011 the District purchased a house and property adjacent to the high school. The purchase price was \$100,000.

December 19, 2011

To the Board of Education  
Canton Local School District  
Canton, OH 44707

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Canton Local School District (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents and have issued our report thereon dated December 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

Canton Local School District  
Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards  
December 19, 2011  
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-01 and 2011-02.

We noted certain matters that we reported to management of the District in a separate letter dated December 19, 2011.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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

*Hea & Associates, Inc.*

December 19, 2011

To the Board of Education  
Canton Local School District  
Canton, OH 44707

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of Canton Local School District (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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.



Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

*Rea & Associates, Inc.*

**CANTON LOCAL SCHOOL DISTRICT  
STARK COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements
<b><u>U. S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program (C)	10.555	2011	\$ 59,261	\$ 59,261
Cash Assistance:				
School Breakfast Program (B)	10.553	2011	164,022	164,022
National School Lunch Program (B)	10.555	2011	480,225	480,225
<i>Cash Assistance Subtotal</i>			644,246	644,246
Total Child Nutrition Cluster			703,507	703,507
<b>Total US Department of Agriculture</b>			703,507	703,507
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed through Ohio Department of Education:</i>				
Title I Cluster:				
Title I, Part A, Grants to Local Educational Agencies	84.010	2010	16,176	64,451
		2011	372,471	353,025
ARRA - Title I, Part A, Grants to Local Educational Agencies (D)	84.389	2010	(5,008)	11,874
		2011	27,039	24,254
Total Title I, Part A			410,678	453,604
Title I, Part D, Grants to Local Educational Agencies	84.013	2010	20,860	71,294
		2011	50,223	56,351
ARRA - Title I, Part D, Grants to Local Educational Agencies (D)	84.389	2010	(5,951)	2,049
		2011	64,360	63,137
Total Title I, Part D			129,493	192,831
Total Title I Cluster			540,171	646,435
Special Education Cluster:				
Special Education Grants to States (Title VI-B)	84.027	2010	29,564	106,078
		2011	416,365	380,099
ARRA - Special Education Grants to States (Title VI-B) (D)	84.391	2010	(26,681)	43,437
		2011	76,340	72,243
Total Special Education Cluster			495,588	601,856
Career and Technical Education - Basic Grants to States	84.048	2010	14,556	15,232
		2011	119,214	102,609
Total Career and Technical Education - Basic Grants to States			133,769	117,841
Educational Technology State Grants (Title II-D)	84.318	2010	336	-
		2011	1,089	1,210
Total Educational Technology State Grants (Title II-D)			1,426	1,210
Improving Teacher Quality (Title II-A)	84.367	2010	-	13,359
		2011	90,234	82,795
Total Improving Teacher Quality (Title II-A)			90,234	96,154

**CANTON LOCAL SCHOOL DISTRICT**  
**STARK COUNTY**  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2011

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements
Safe and Drug-Free Schools and Communities (Title IV-A)	84.186	2010	\$ 834	\$ (82)
ARRA - State Fiscal Stabilization Fund	84.394	2010	-	98,012
		2011	641,714	540,830
Total ARRA - State Fiscal Stabilization Fund			641,714	638,842
Education Jobs Fund	84.410	2011	105,498	38,325
ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants	84.395	2011	44,605	38,189
Consolidated Administrative (District Improvement)	XX.XXX	2011	420	420
<b>Total U. S. Department of Education Passed through Ohio Department of Education</b>			<b>2,054,259</b>	<b>2,179,190</b>
 <b><u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u></b>				
<i>Passed through Ohio Department of Education:</i>				
Learn and Serve America	94.004	2010	4,746	2,442
		2011	12,166	12,363
Total Learn and Serve America			16,912	14,805
<b>Total Corporation for National and Community Service Passed through Ohio Department of Education</b>			<b>16,912</b>	<b>14,805</b>
 <b>Total Federal Financial Assistance</b>			<b>\$ 2,774,679</b>	<b>\$ 2,897,502</b>

See accompanying notes to schedule of expenditures of federal awards.

**Canton Local School District**  
**Stark County, Ohio**  
*Notes to the Schedule of Federal Expenditures – Cash Basis*  
*For the Fiscal Year Ended June 30, 2011*

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**Note A – Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Canton Local School District (the District) and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations.” Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note B - Child Nutrition Cluster**

Federal money is commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

**Note C – 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 and related expenditures are reported in this schedule at the value of the commodities received as assessed by the U.S. Department of Agriculture (entitlement value).

**Note D – Return of Receipt**

The negative amount represents cash carried into the next grant year.

**Note E – Matching Requirements**

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

**Canton Local School District**  
**Stark County, Ohio**  
*Notes to the Schedule of Federal Expenditures – Cash Basis*  
*For the Fiscal Year Ended June 30, 2011*

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**Note F - Transfers**

The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education’s (ODE) approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. During fiscal year 2011, the ODE authorized the following transfers:

<u>CFDA</u> <u>Number</u>	<u>Program Title</u>	<u>Program</u> <u>Year</u>	<u>Transfers</u> <u>Out</u>	<u>Transfers</u> <u>In</u>
84.010	Title I Grants to Local Educational Agencies	2010	\$ 41,662	
84.010	Title I Grants to Local Educational Agencies	2011		\$ 41,662
84.027	Title VI-B Special Education - Grants to States	2010	\$27,608	
84.027	Title VI-B Special Education - Grants to States	2011		\$27,608
84.389	ARRA Title I Grants to Local Educational Agencies	2010	\$124,337	
84.389	ARRA Title I Grants to Local Educational Agencies	2011		\$124,337
84.391	ARRA Title VI-B Special Education - Grants to States	2010	\$80,845	
84.391	ARRA Title VI-B Special Education - Grants to States	2011		\$80,845

**CANTON LOCAL SCHOOL DISTRICT  
STARK COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 , Section .505  
JUNE 30, 2011**

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

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other internal control deficiencies reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any internal control deficiencies reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list): Title I Cluster (ARRA) Nutrition Cluster SFSF (ARRA)	CFDA # 84.010, 84.013 & 84.389 (ARRA) 10.555 & 10.553 84.394 (ARRA)
(d) (1) (viii)	Dollar Threshold: Type A/B	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

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

**MATERIAL NON-COMPLIANCE**

<b>FINDING NUMBER</b>	<b>2011-001</b>
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**Criteria:**

**Ohio Rev. Code Section 5705.10** requires that money paid into a fund must be used only for the purposes for which such fund has been established. Negative fund cash balances indicate that money from one fund was used to cover the expenses of another fund. Ohio Rev. Code Section 3315.20 provides an exception for special revenue funds if the following conditions are met. The District must have a request for payment pending with the state sufficient to cover the amount of the deficit and there is a reasonable likelihood that the payment will be made; and the unspent unencumbered balance in the District's general fund is greater than the aggregate of deficit amounts in all of the District's special revenue funds.

**CANTON LOCAL SCHOOL DISTRICT  
STARK COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)  
JUNE 30, 2011**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**MATERIAL NON-COMPLIANCE (Continued)**

<b>FINDING NUMBER</b>	<b>2011-001 (Continued)</b>
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**Condition Found:**

The District had two funds with negative cash balances at year end that did not meet the exceptions listed above. The following table summarizes the negative cash balances at year end.

<b>Fund</b>	<b>Deficit</b>
Other Grants Fund (019)	\$116,594
District Agency (022)	135,487

**Effect:**

The District has spent more than the available cash balance in the funds indicated above resulting in a deficit balance at year end.

**Recommendations:**

Fund activity should be monitored to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

**Corrective Action:**

Previously, in the case of the Multi-County Juvenile Attention Center Fund, the cost of all services were paid, then the participating districts were invoiced for their costs after the services have been provided and paid. Beginning in 2011 this process was modified, such that the district bills the Attention Center directly. This resulted in a decrease in the negative cash balance from approximately \$1.3 million at the end of fiscal year 2010 to approximately \$117,000 at the end of fiscal year 2011. The district has shown great efforts to reduce this negative cash balance. The 022 fund represents suspended community schools that the district is the fiscal agent for.

**CANTON LOCAL SCHOOL DISTRICT  
STARK COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)  
JUNE 30, 2011**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**MATERIAL NON-COMPLIANCE (Continued)**

<b>FINDING NUMBER</b>	<b>2011-002</b>
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**Criteria:** Ohio Rev. Code Section 5705.41 (B) states no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated.

**Condition Found:**

As of June 30, 2011, the District had expenditures exceeding appropriations in the following funds:

<u>Fund</u>	<u>Expenditures Exceeding Appropriations</u>
Other Grants Fund (019)	\$124,940
Title I Fund (572)	65,147

**Effect:**

The District spent monies prior to appropriating, contrary to budgetary requirements.

**Recommendations:**

The District should monitor expenditures and ensure appropriations are available prior to approving the purchase order.

**Corrective Action:**

This issue is related to the negative fund balances. Certain funds are required to be spent before the revenues are received, resulting in a negative fund balance. Appropriations cannot exceed the amount of revenue received so the appropriations are limited to the amount of revenue received. This causes the expenditures to exceed the appropriation level. The General Fund does not have adequate resources to advance to this fund to avoid having expenditures exceed appropriations.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None Noted



CANTON LOCAL SCHOOL DISTRICT  
STARK COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133, SECTION .315(b)  
JUNE 30, 2011

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain</b>
2010-001	Ohio Revised Code Section 5705.10, several District funds had negative fund balances.	No	Re-issued as Finding 2011-001
2010-002	Ohio Revised Code Section 5705.41(B), the District had several funds where expenditures exceeded appropriations.	No	Re-Issued as Finding 2011-002
2010-003	SAS 115 material misstatements in the financial statements were identified.	Yes	

December 19, 2011

To the Board of Education  
Canton Local School District  
Canton, OH 44707

**Independent Accountant's Report on Applying Agreed-Upon Procedure**

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Canton Local School District (the "District") has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board amended its anti-harassment policy at its meeting on November 15, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

*Rea & Associates, Inc.*



# Dave Yost • Auditor of State

CANTON LOCAL SCHOOL DISTRICT

STARK COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
FEBRUARY 7, 2012