



**Auditor of State
Betty Montgomery**

**NORTH CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Canton City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the North Canton City School District, Stark County, Ohio, as of June 30, 2003, and the respective changes in financial position, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. In addition, as described in Note 8, the District increased its capitalization threshold for capital assets from \$500 to \$10,000 during the year ended June 30, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

March 11, 2004

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The discussion and analysis of the North Canton City School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets of governmental activities increased \$1,549,316 which represents a 19.98% increase from 2002.
- General revenues accounted for \$36,611,662 in revenue or 90.86% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,683,854 or 9.14% of total revenues of \$40,295,516.
- The District had \$38,746,200 in expenses related to governmental activities; only \$3,683,854 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$36,611,662 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$35,207,706 in revenues and other financing sources and \$34,478,695 in expenditures and other financing uses. During fiscal 2003, the general fund's fund balance, increased \$766,308 from \$(2,195,275) to \$(1,428,967). A portion of this increase, \$37,297, was due to an increase in the reserve for materials and supplies inventory.
- The District's other major governmental fund is the debt service fund. The debt service fund had \$1,868,490 in revenues and other financing sources and \$2,200,282 in expenditures. During fiscal 2003, the debt service fund's fund balance decreased \$331,792 from \$1,751,689 to \$1,419,897.

Using the Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

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

	Net Assets
	Governmental Activities 2003
<u>Assets</u>	
Current and other assets	\$ 24,429,684
Capital assets	29,502,874
Total assets	53,932,558
<u>Liabilities</u>	
Current liabilities	23,183,244
Long-term liabilities	21,447,127
Total liabilities	44,630,371
<u>Net Assets</u>	
Invested in capital assets, net of related debt	11,168,079
Restricted	1,805,976
Unrestricted	(3,671,868)
Total net assets	\$ 9,302,187

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$9,302,187. At year-end, restricted net assets were \$1,805,976.

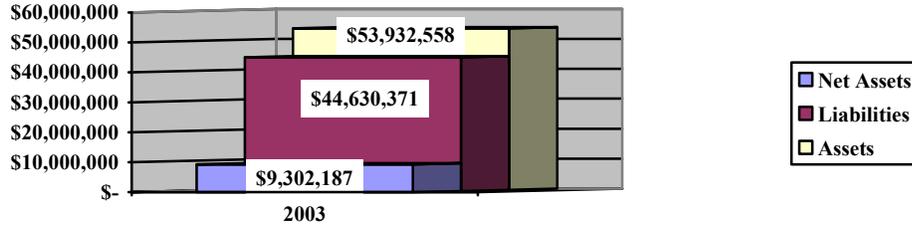
At year-end, capital assets represented 54.70% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2003, was \$11,168,079. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,805,976, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is \$(3,671,868).

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED**

Governmental Activities



The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	Governmental Activities 2003
<u>Revenues</u>	
Program revenues:	
Charges for services and sales	\$ 2,118,264
Operating grants and contributions	1,493,655
Capital grants and contributions	71,935
General revenues:	
Property taxes	20,696,898
Grants and entitlements	14,984,553
Investment earnings	61,138
Gain on disposal of capital assets	122,981
Other	746,092
Total revenues	\$ 40,295,516

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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Change in Net Assets

	Governmental Activities <u>2003</u>
<u>Expenses</u>	
Program expenses:	
Instruction:	
Regular	16,455,592
Special	2,889,962
Vocational	1,441,126
Other	71,751
Support services:	
Pupil	1,540,873
Instructional staff	2,116,145
Board of education	31,106
Administration	2,841,518
Fiscal	907,277
Business	133,651
Operations and maintenance	3,861,896
Pupil transportation	2,033,763
Central	335,147
Operations of non-instructional services	361,957
Food service operations	1,143,008
Extracurricular activities	1,116,184
Intergovernmental pass through	203,899
Interest and fiscal charges	<u>1,261,345</u>
Total expenses	<u>38,746,200</u>
Increase in net assets	<u>\$ 1,549,316</u>

Governmental Activities

Net assets of the District's governmental activities increased by \$1,549,316. Total governmental expenses of \$38,746,200 were offset by program revenues of \$3,683,854 and general revenues of \$36,611,662. Program revenues supported 9.51% of the total governmental expenses.

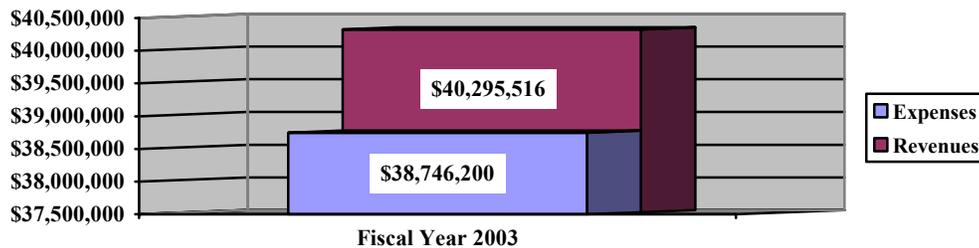
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 88.55% of total governmental revenue. Real estate property is reappraised every six years.

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

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

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

Governmental Activities

	Total Cost of Services 2003	Net Cost of Services 2003
Program expenses		
Instruction:		
Regular	\$ 16,455,592	\$ 15,800,979
Special	2,889,962	2,665,571
Vocational	1,441,126	1,411,010
Other	71,751	32,625
Support services:		
Pupil	1,540,873	1,336,863
Instructional staff	2,116,145	1,826,800
Board of education	31,106	31,106
Administration	2,841,518	2,430,557
Fiscal	907,277	907,277
Business	133,651	61,716
Operations and maintenance	3,861,896	3,861,896
Pupil transportation	2,033,763	2,033,763
Central	335,147	308,390
Operations of non-instructional services	361,957	344,371
Food service operations	1,143,008	29,216
Extracurricular activities	1,116,184	747,892
Intergovernmental pass through	203,899	(29,031)
Interest and fiscal charges	1,261,345	1,261,345
Total expenses	<u>\$ 38,746,200</u>	<u>\$ 35,062,346</u>

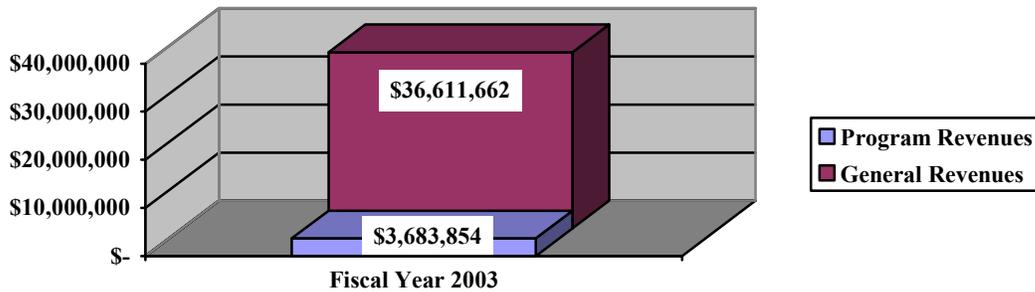
**NORTH CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The dependence upon tax and other general revenues for governmental activities is apparent, 95.45% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 90.49%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2003.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$1,026,546, which is higher than last year's total of \$431,013. The June 30, 2002 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	Fund Balance <u>June 30, 2003</u>	Fund Balance <u>June 30, 2002</u>	Increase <u>(Decrease)</u>
General	\$ (1,428,967)	\$ (2,195,275)	\$ 766,308
Debt Service	1,419,897	1,751,689	(331,792)
Other Governmental	<u>1,035,616</u>	<u>874,599</u>	<u>161,017</u>
Total	<u>\$ 1,026,546</u>	<u>\$ 431,013</u>	<u>\$ 595,533</u>

General Fund

The District's general fund's fund balance increased by \$766,308 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statement). The increase in fund balance can be attributed primarily to property tax increases. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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	<u>2003</u>	<u>Restated</u> <u>2002</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$ 19,080,227	\$ 16,225,052	17.60 %
Tuition	368,859	286,279	28.85 %
Earnings on investments	59,335	111,124	(46.60) %
Intergovernmental	14,874,615	14,011,407	6.16 %
Other revenues	<u>771,115</u>	<u>682,230</u>	13.03 %
Total	<u>\$ 35,154,151</u>	<u>\$ 31,316,092</u>	12.26 %
<u>Expenditures</u>			
Instruction	\$ 19,699,168	\$ 17,728,932	11.11 %
Support services	12,298,409	11,285,416	8.98 %
Operation of non-instructional services	317,364	159,281	99.25 %
Extracurricular activities	748,352	578,237	29.42 %
Facilities acquisition and construction	<u>1,145,635</u>	<u>649,320</u>	76.44 %
Total	<u>\$ 34,208,928</u>	<u>\$ 30,401,186</u>	12.52 %

Debt Service Fund

The District's debt service fund's fund balance decreased by \$331,792 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statement). The decrease in fund balance can be attributed to debt retirement which is detailed in Note 9 to the basic financial statements.

General Fund Budgeting Highlights

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

During the course of fiscal 2003, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$34,117,428, which exceeds the original budgeted revenues estimate of \$33,263,051. Actual revenues and other financing sources for fiscal 2003 was \$34,155,103. This represents a \$37,675 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$34,462,889 were increased to \$35,313,932 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2003 totaled \$34,198,484, which was \$1,115,448 less than the final budget appropriations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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Capital Assets and Debt Administration

Capital Assets

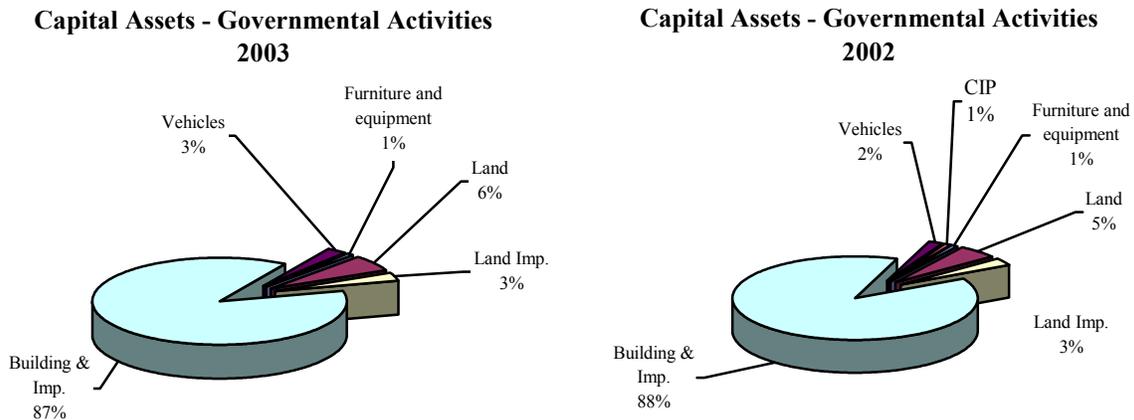
At the end of fiscal 2003, the District had \$29,502,874 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. This entire amount is reported in governmental activities. The following table shows fiscal 2003 balances compared to 2002:

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

	Governmental Activities	
	2003	2002
Land	\$ 1,785,562	\$ 1,577,806
Land improvements	954,284	844,386
Building and improvements	25,786,171	25,925,780
Furniture and equipment	237,512	223,463
Vehicles	739,345	563,086
Construction in progress	-	242,000
Total	<u>\$ 29,502,874</u>	<u>\$ 29,376,521</u>

Total additions to capital assets for 2003 were \$2,032,965. The District recorded \$1,184,612 in depreciation expense for fiscal 2003. Refer to Note 8 in the basic financial statements for further detail.

The following graphs show the breakdown governmental activities capital assets by category for 2003 and 2002.



Debt Administration

At June 30, 2003, the District had \$19,888,194 in general obligation bonds and energy conservation bonds outstanding. Of this total, \$1,180,000 is due within one year and \$18,708,194 is due within greater than one year.

The following table summarizes the bonds outstanding.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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Outstanding Debt, at Year End

	<u>Governmental Activities 2003</u>	<u>Governmental Activities 2002</u>
General obligation bonds	\$ 19,378,194	\$ 19,991,195
Energy conservation bonds	<u>510,000</u>	<u>745,000</u>
Total	<u>\$ 19,888,194</u>	<u>\$ 20,736,195</u>

The energy conservation bonds are scheduled to mature in fiscal year 2005 and bear an interest rate of 5.71%. Payment of principal and interest on the energy conservation bonds are being made from the debt service fund.

The general obligation bonds are scheduled to mature in fiscal year 2019 and bear an interest rate ranging from 4.25-5.11%. Payment of principal and interest on the general obligation bonds are being made from the debt service fund.

At June 30, 2003, the District's overall legal debt margin was \$33,754,806 with an unvoted debt margin of \$580,257.

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

Current Financial Related Activities

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

The District has a strong financial outlook. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. Overall, the District continues to perform at the highest level determined by the State of Ohio, which is measured by a defined set of proficiency criteria. Our most recent state report card shows the district students achieving a perfect 22 out of 22 and an "Excellent" rating for the 3rd straight year.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed additional revenue growth toward the support of School Districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not "equitable" or "adequate." The Court directed the Governor and the legislature to address the fundamental issues creating the inequities. In September 2001, the Ohio Supreme Court issued an opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional.

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

During the fiscal year ending June 30, 2003, the Ohio Department of Education reduced the District's Foundation funding by \$237,352, per an Executive Order by the Governor. These dollars, and the inflationary increases on these dollars, have been lost for the District.

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

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

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2003

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 4,767,570
Receivables:	
Taxes	19,568,880
Accounts	27,367
Intergovernmental	5,517
Materials and supplies inventory.	60,350
Capital assets:	
Land	1,785,562
Depreciable capital assets, net	27,717,312
Capital assets, net	<u>29,502,874</u>
 Total assets.	 <u>53,932,558</u>
 Liabilities:	
Accounts payable.	221,374
Accrued wages and benefits	3,959,909
Pension obligation payable.	884,338
Intergovernmental payable	380,152
Deferred revenue	17,656,114
Accrued interest payable	81,357
Long-term liabilities:	
Due within one year.	1,459,543
Due within more than one year	19,987,584
 Total liabilities	 <u>44,630,371</u>
 Net Assets:	
Invested in capital assets, net of related debt.	11,168,079
Restricted for:	
Capital projects	125,739
Debt service.	1,356,001
Other purposes	324,236
Unrestricted (deficit)	<u>(3,671,868)</u>
 Total net assets	 <u>\$ 9,302,187</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Regular	\$ 16,455,592	\$ 486,009	\$ 168,604	\$ -	\$ (15,800,979)
Special	2,889,962	-	224,391	-	(2,665,571)
Vocational	1,441,126	-	30,116	-	(1,411,010)
Other	71,751	29,129	9,997	-	(32,625)
Support services:					
Pupil	1,540,873	-	204,010	-	(1,336,863)
Instructional staff	2,116,145	3,078	286,267	-	(1,826,800)
Board of education	31,106	-	-	-	(31,106)
Administration	2,841,518	303,429	107,532	-	(2,430,557)
Fiscal	907,277	-	-	-	(907,277)
Business	133,651	-	-	71,935	(61,716)
Operations and maintenance	3,861,896	-	-	-	(3,861,896)
Pupil transportation	2,033,763	-	-	-	(2,033,763)
Central	335,147	-	26,757	-	(308,390)
Operation of non-instructional services	361,957	-	17,586	-	(344,371)
Extracurricular activities	1,116,184	368,292	-	-	(747,892)
Intergovernmental	203,899	-	232,930	-	29,031
Food service operations	1,143,008	928,327	185,465	-	(29,216)
Interest and fiscal charges	1,261,345	-	-	-	(1,261,345)
Total governmental activities	\$ 38,746,200	\$ 2,118,264	\$ 1,493,655	\$ 71,935	(35,062,346)

General Revenues:

Property taxes levied for:	
General purposes	19,209,125
Debt service	1,487,773
Grants and entitlements not restricted to specific programs	14,984,553
Investment earnings	61,138
Gain on disposal of capital assets	122,981
Miscellaneous	746,092
Total general revenues	36,611,662
Change in net assets	1,549,316
Net assets at beginning of year (restated, see Note 3) .	7,752,871
Net assets at end of year	\$ 9,302,187

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 2,120,487	\$ 1,287,937	\$ 1,217,149	\$ 4,625,573
Receivables:				
Taxes	18,146,890	1,421,990	-	19,568,880
Accounts	27,367	-	-	27,367
Intergovernmental	-	-	5,517	5,517
Materials and supplies inventory	49,406	-	10,944	60,350
Restricted assets:				
Equity in pooled cash and cash equivalents	141,997	-	-	141,997
Total assets	<u><u>\$ 20,486,147</u></u>	<u><u>\$ 2,709,927</u></u>	<u><u>\$ 1,233,610</u></u>	<u><u>\$ 24,429,684</u></u>
Liabilities:				
Accounts payable	\$ 208,995	\$ -	\$ 12,379	\$ 221,374
Accrued wages and benefits	3,794,524	-	165,385	3,959,909
Compensated absences payable	159,748	-	-	159,748
Pension obligation payable	530,028	-	-	530,028
Intergovernmental payable	365,439	-	14,713	380,152
Retirement incentive payable	162,500	-	-	162,500
Deferred revenue	16,693,880	1,290,030	5,517	17,989,427
Total liabilities	<u><u>21,915,114</u></u>	<u><u>1,290,030</u></u>	<u><u>197,994</u></u>	<u><u>23,403,138</u></u>
Fund Balances:				
Reserved for encumbrances	561,965	-	260,267	822,232
Reserved for materials and supplies inventory	49,406	-	10,944	60,350
Reserved for property tax unavailable for appropriation	1,453,010	131,960	-	1,584,970
Reserved for debt service	-	1,287,937	-	1,287,937
Reserved for budget stabilization	141,997	-	-	141,997
Unreserved, undesignated, reported in:				
General fund	(3,635,345)	-	-	(3,635,345)
Special revenue funds	-	-	638,666	638,666
Capital projects funds	-	-	125,739	125,739
Total fund balances	<u><u>(1,428,967)</u></u>	<u><u>1,419,897</u></u>	<u><u>1,035,616</u></u>	<u><u>1,026,546</u></u>
Total liabilities and fund balances	<u><u>\$ 20,486,147</u></u>	<u><u>\$ 2,709,927</u></u>	<u><u>\$ 1,233,610</u></u>	<u><u>\$ 24,429,684</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total governmental fund balances		\$	1,026,546
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			29,502,874
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	327,796	
Intergovernmental revenue		<u>5,517</u>	
Total			333,313
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		19,888,194	
Compensated absences		1,236,685	
Pension obligation payable		354,310	
Accrued interest payable		<u>81,357</u>	
Total			<u>(21,560,546)</u>
Net assets of governmental activities		<u>\$</u>	<u>9,302,187</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 19,080,227	\$ 1,488,897	\$ -	\$ 20,569,124
Tuition	368,859	-	-	368,859
Earnings on investments	59,335	-	3,633	62,968
Charges for services	-	-	928,327	928,327
Classroom materials and fees	32,975	-	223,570	256,545
Extracurricular	6,245	-	459,355	465,600
Other local revenues	731,895	-	115,190	847,085
Intergovernmental - Intermediate	-	-	31,947	31,947
Intergovernmental - State	14,874,615	109,938	432,300	15,416,853
Intergovernmental - Federal	-	-	1,138,852	1,138,852
Total revenue	<u>35,154,151</u>	<u>1,598,835</u>	<u>3,333,174</u>	<u>40,086,160</u>
Expenditures:				
Current:				
Instruction:				
Regular	15,642,480	-	274,372	15,916,852
Special	2,686,980	-	199,180	2,886,160
Vocational	1,342,516	-	13,498	1,356,014
Other	27,192	-	44,319	71,511
Support Services:				
Pupil	1,378,917	-	231,987	1,610,904
Instructional staff	1,657,914	-	336,009	1,993,923
Board of education	26,866	-	-	26,866
Administration	2,373,219	-	426,264	2,799,483
Fiscal	805,171	70,337	-	875,508
Business	61,716	-	71,935	133,651
Operations and maintenance	3,487,519	-	-	3,487,519
Pupil transportation	2,198,197	-	-	2,198,197
Central	308,890	-	13,443	322,333
Operation of non-instructional services	317,364	-	23,025	340,389
Food service operations	-	-	1,048,692	1,048,692
Extracurricular activities	748,352	-	324,922	1,073,274
Facilities acquisition and construction	1,145,635	-	23,951	1,169,586
Intergovernmental pass through	-	-	208,679	208,679
Debt service:				
Principal retirement	-	1,125,000	-	1,125,000
Interest and fiscal charges	-	1,004,945	-	1,004,945
Total expenditures	<u>34,208,928</u>	<u>2,200,282</u>	<u>3,240,276</u>	<u>39,649,486</u>
Excess of revenues over (under) expenditures	<u>945,223</u>	<u>(601,447)</u>	<u>92,898</u>	<u>436,674</u>
Other financing sources (uses):				
Transfers in	-	269,655	112	269,767
Transfers (out)	(269,767)	-	-	(269,767)
Proceeds from sale of capital assets	53,555	-	69,426	122,981
Total other financing sources (uses)	<u>(216,212)</u>	<u>269,655</u>	<u>69,538</u>	<u>122,981</u>
Net change in fund balances	729,011	(331,792)	162,436	559,655
Fund balances at beginning of year (restated)	(2,195,275)	1,751,689	874,599	431,013
Increase (decrease) in reserve for inventory	37,297	-	(1,419)	35,878
Fund balances at end of year	<u>\$ (1,428,967)</u>	<u>\$ 1,419,897</u>	<u>\$ 1,035,616</u>	<u>\$ 1,026,546</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds	\$	559,655
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.		126,353
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		38,369
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		1,125,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(256,400)
Governmental funds report expenditures for inventory when purchased, however, in the statement of activities, they are reported as expenses when consumed.		35,878
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		<u>(79,539)</u>
Change in net assets of governmental activities	\$	<u><u>1,549,316</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 17,610,913	\$ 18,063,257	\$ 18,083,204	\$ 19,947
Tuition.	305,235	313,075	313,421	346
Earnings on investments.	57,785	59,270	59,335	65
Extracurricular.	6,082	6,238	6,245	7
Classroom materials and fees.	27,000	27,000	27,345	345
Other local revenues.	613,312	629,759	630,139	380
Intergovernmental - State	14,486,125	14,858,207	14,874,615	16,408
Total revenue	<u>33,106,452</u>	<u>33,956,806</u>	<u>33,994,304</u>	<u>37,498</u>
Expenditures:				
Current:				
Instruction:				
Regular	15,649,396	15,453,244	15,207,550	245,694
Special.	2,712,127	2,759,278	2,637,849	121,429
Vocational.	1,336,260	1,357,325	1,300,731	56,594
Other	40,000	40,000	74,867	(34,867)
Support Services:				
Pupil.	1,413,752	1,414,452	1,324,039	90,413
Instructional staff	1,681,561	1,701,469	1,608,891	92,578
Board of education	31,243	33,368	26,822	6,546
Administration.	2,367,305	2,373,584	2,304,206	69,378
Fiscal	785,729	932,458	841,250	91,208
Business	37,500	62,300	61,716	584
Operations and maintenance.	3,212,846	3,499,341	3,458,035	41,306
Pupil transportation	2,247,368	2,252,569	2,146,858	105,711
Central.	431,928	334,628	304,688	29,940
Operation of non-instructional services	236,796	391,396	334,689	56,707
Extracurricular activities.	671,934	735,034	710,990	24,044
Facilities acquisition and construction.	1,287,000	1,653,119	1,584,971	68,148
Total expenditures	<u>34,142,745</u>	<u>34,993,565</u>	<u>33,928,152</u>	<u>1,065,413</u>
Excess of revenues over (under) expenditures.	<u>(1,036,293)</u>	<u>(1,036,759)</u>	<u>66,152</u>	<u>1,102,911</u>
Other financing sources (uses):				
Refund of prior year expenditure	86,929	89,162	89,260	98
Refund of prior year receipts	(500)	(600)	(565)	35
Transfers (out)	(269,644)	(269,767)	(269,767)	-
Advances in.	17,514	17,964	17,984	20
Contingencies.	(50,000)	(50,000)	-	50,000
Proceeds from sale of capital assets.	52,156	53,496	53,555	59
Total other financing sources (uses)	<u>(163,545)</u>	<u>(159,745)</u>	<u>(109,533)</u>	<u>50,212</u>
Net change in fund balance	<u>(1,199,838)</u>	<u>(1,196,504)</u>	<u>(43,381)</u>	<u>1,153,123</u>
Fund balance at beginning of year	<u>900,315</u>	<u>900,315</u>	<u>900,315</u>	<u>-</u>
Prior year encumbrances appropriated	<u>700,408</u>	<u>700,408</u>	<u>700,408</u>	<u>-</u>
Fund balance at end of year	<u>\$ 400,885</u>	<u>\$ 404,219</u>	<u>\$ 1,557,342</u>	<u>\$ 1,153,123</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 90,236	\$ 120,264
Total assets	90,236	120,264
Liabilities:		
Intergovernmental payable	-	16,339
Due to students	-	103,925
Total liabilities	-	\$ 120,264
Net Assets:		
Held in trust for scholarships	90,236	
Total net assets	\$ 90,236	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 3,081
Gifts and contributions.	9,512
Total additions.	12,593
Deductions:	
Scholarships awarded	6,950
Change in net assets	5,643
Net assets at beginning of year.	84,593
Net assets at end of year	\$ 90,236

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District is the 74th largest in the State of Ohio (among 740 public and community school districts) in terms of enrollment. It is staffed by 234 non-certificated employees and 356 certificated full-time teaching personnel, who provide services to 4,621 students and other community members. The Board controls the District's eight school buildings, a bus garage, a warehouse, and an administration building.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organization 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, and student related activities of the District.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

PUBLIC ENTITY RISK POOLS

Shared Risk Pool

Stark County School Council of Governments Health Benefit Plan

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

Insurance Purchasing Pool

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

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

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

D. Basis of Accounting

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

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

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

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the object level within each function for the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

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

Estimated Resources:

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

**NORTH CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

Appropriations:

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

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

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

Lapsing of Appropriations:

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

F. Cash and Investments

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

During fiscal year 2003, investments were limited to a repurchase agreement. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$59,355, which includes \$35,992 assigned from other District funds.

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

**NORTH CANTON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

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

G. Inventory

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

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

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

H. Capital Assets

General capital assets are those assets not 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 increased its capitalization threshold from \$500 to \$10,000 for its general capital assets during fiscal 2003. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	7 - 30 years
Buildings and improvements	5 - 50 years
Furniture and equipment	5 - 30 years
Vehicles	6 - 15 years

I. Interfund Balances

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

**NORTH CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

J. Compensated Absences

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

**NORTH CANTON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

M. Net Assets

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

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

N. Estimates

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

O. Restricted Assets

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

P. Interfund Activity

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

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

Q. Nonpublic Schools

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

**NORTH CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2003.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

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

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

GASB No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by fund reclassifications and the conversion to the accrual basis of accounting.

**NORTH CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Statement of GASB Statement No. 34. Certain funds previously reported as enterprise funds are now reported as nonmajor governmental funds. It was determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002. The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance				
June 30, 2002	\$ (1,920,245)	\$ 1,751,689	\$ 740,585	\$ 572,029
Fund reclassifications	87,475	-	134,014	221,489
Implementation of GASB Interpretation No. 6	<u>(362,505)</u>	<u>-</u>	<u>-</u>	<u>(362,505)</u>
Adjusted fund balance, June 30, 2002	<u>\$ (2,195,275)</u>	<u>\$ 1,751,689</u>	<u>\$ 874,599</u>	<u>\$ 431,013</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	<u>Total</u>
Adjusted fund balance, June 30, 2002	\$ 431,013
GASB 34 adjustments:	
Long-term (deferred) assets	294,944
Capital assets	29,376,521
Long-term liabilities	(21,922,727)
Accrued interest payable	(101,956)
Pension obligations	<u>(324,924)</u>
Governmental activities net assets, June 30, 2002	<u>\$ 7,752,871</u>

**NORTH CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits:

	Deficit
<u>Major Funds</u>	
General	\$ 1,428,967
<u>Nonmajor Governmental Funds</u>	
Ohio Reads	510
Title VI-B	4,174
Drug Free Schools	3,325
Preschool Grant	5,384
Classroom Reduction	848

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

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

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

**NORTH CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

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

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

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

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

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$2,253,070 and the bank balance was \$2,652,178. Both of these amounts include \$60,892 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and

**NORTH CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

2. \$2,452,178 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

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

	Category 3	Reported Amount	Fair Value
Repurchase agreement	<u>\$ 2,725,000</u>	<u>\$ 2,725,000</u>	<u>\$ 2,725,000</u>

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$ 4,978,070	\$ -
Investments of the cash management pool:		
Repurchase agreement	<u>(2,725,000)</u>	<u>2,725,000</u>
GASB Statement No. 3	<u>\$ 2,253,070</u>	<u>\$ 2,725,000</u>

**NORTH CANTON CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 112
Debt Service Fund	<u>269,655</u>
Total	<u>\$ 269,767</u>

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

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2001. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Stark County. The County Auditor periodically advances to the District the portion of the taxes collected. Second-half real property tax payments collected by the County Auditor by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available as an advance at June 30, 2003 was \$1,453,010 in the general fund and \$131,960 in the debt service fund. The amount that was available as advance at June 30, 2002 was \$402,280 in the general fund and \$36,340 in the debt service fund.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and ther real estate	\$ 499,848,090	88.67	\$ 515,669,810	88.87
Public utility personal	440	0.00	420	0.00
Tangible personal property	<u>63,838,259</u>	<u>11.33</u>	<u>64,586,472</u>	<u>11.13</u>
Total	<u>\$ 563,686,789</u>	<u>100.00</u>	<u>\$ 580,256,702</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 62.80		\$ 62.80	
Debt Service	2.70		2.70	

**NORTH CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities

Property taxes	\$ 19,568,880
Accounts	27,367
Intergovernmental	<u>5,517</u>
 Total	 <u>\$ 19,601,764</u>

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

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to a change in the District's capital asset policy (see Note 2.H. for detail) and to include land values that were not previously reported:

	<u>Balance</u> 6/30/02	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> 07/01/02
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ -	\$ 1,577,806	\$ 1,577,806
Construction in progress	<u>241,742</u>	<u>258</u>	<u>242,000</u>
Total capital assets, not being depreciated	<u>241,742</u>	<u>1,578,064</u>	<u>1,819,806</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	2,106,770	(136,320)	1,970,450
Buildings and improvement	40,611,873	(193,932)	40,417,941
Furniture and equipment	8,688,328	(7,890,527)	797,801
Vehicles	1,712,763	-	1,712,763
Textbooks	<u>1,724,564</u>	<u>(1,724,564)</u>	<u>-</u>
Total capital assets, being depreciated	<u>54,844,298</u>	<u>(9,945,343)</u>	<u>44,898,955</u>
<i>Less: accumulated depreciation</i>	<u>-</u>	<u>(17,342,240)</u>	<u>(17,342,240)</u>
Governmental activities capital assets, net	<u>\$ 55,086,040</u>	<u>\$ (25,709,519)</u>	<u>\$ 29,376,521</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	<u>Restated Balance 07/01/02</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/03</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,577,806	\$ 207,756	\$ -	\$ 1,785,562
Construction in progress	<u>242,000</u>	<u>480,000</u>	<u>(722,000)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>1,819,806</u>	<u>687,756</u>	<u>(722,000)</u>	<u>1,785,562</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,970,450	170,528	-	2,140,978
Buildings and improvements	40,417,941	780,245	-	41,198,186
Furniture and equipment	797,801	67,928	-	865,729
Vehicles	<u>1,712,763</u>	<u>326,508</u>	<u>-</u>	<u>2,039,271</u>
Total capital assets, being depreciated	<u>44,898,955</u>	<u>1,345,209</u>	<u>-</u>	<u>46,244,164</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,126,064)	(60,630)	-	(1,186,694)
Buildings and improvements	(14,492,161)	(919,854)	-	(15,412,015)
Furniture and equipment	(574,338)	(53,879)	-	(628,217)
Vehicles	<u>(1,149,677)</u>	<u>(150,249)</u>	<u>-</u>	<u>(1,299,926)</u>
Total accumulated depreciation	<u>(17,342,240)</u>	<u>(1,184,612)</u>	<u>-</u>	<u>(18,526,852)</u>
Governmental activities capital assets, net	<u>\$ 29,376,521</u>	<u>\$ 848,353</u>	<u>\$ (722,000)</u>	<u>\$ 29,502,874</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 683,253
Special	41,027
Vocational	67,718

Support Services:

Pupil	12,173
Instructional staff	44,848
Board of education	4,240
Administration	19,292
Operations and maintenance	14,418
Pupil transportation	149,402
Central	11,584
Operation of non-instructional	6,000
Extracurricular activities	65,331
Food service operations	<u>65,326</u>

Total depreciation expense \$ 1,184,612

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - LONG-TERM OBLIGATIONS

A. The balance of the District's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability increased \$39,714 from \$1,304,753 to \$1,344,467 due to the implementation of GASB Interpretation No. 6 and due to fund reclassifications described in Note 3.A. In addition, pension obligations of \$311,176 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. In addition, accreted interest has been recorded on capital appreciation bonds in the amount of \$766,400 and energy bonds have been restated by \$30,000 to properly reflect future debt requirements. The effect on the total governmental activities long-term obligations at July 1, 2002 was a increase of \$524,733 from \$21,775,929 to \$22,300,662. During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

	<u>Issued</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Restated Balance 07/01/02</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/03</u>	<u>Amount Due in One Year</u>
<u>G.O. Bonds Payable</u>								
High school improvements	1994	2019	4.25-5.00%	\$ 19,991,195	\$ 276,999	\$ (890,000)	\$ 19,378,194	\$ 930,000
Energy conservations	1994	2005	5.71%	<u>745,000</u>	<u>-</u>	<u>(235,000)</u>	<u>510,000</u>	<u>250,000</u>
Total G.O. bonds				<u>20,736,195</u>	<u>276,999</u>	<u>(1,125,000)</u>	<u>19,888,194</u>	<u>1,180,000</u>
<u>Other Long-Term Obligations</u>								
Compensated absences				1,344,467	194,471	(142,505)	1,396,433	117,043
Retirement incentive payable				<u>220,000</u>	<u>162,500</u>	<u>(220,000)</u>	<u>162,500</u>	<u>162,500</u>
Total other long-term obligations				<u>1,564,467</u>	<u>356,971</u>	<u>(362,505)</u>	<u>1,558,933</u>	<u>279,543</u>
Total governmental activities				<u>\$ 22,300,662</u>	<u>\$ 633,970</u>	<u>\$ (1,487,505)</u>	<u>\$ 21,447,127</u>	<u>\$ 1,459,543</u>

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

On March 1, 1998, the District issued general obligation bonds to refund a portion of the 1994 Series issue. This issue is comprised of both current interest bonds, par value \$15,960,000, and capital appreciation bonds, par value \$4,830,000. The interest rates on the current interest bonds range from 4.25% to 5.00%. The capital appreciation bonds mature on December 1, 2007 (effective interest 18.00%), December 1, 2008 (effective interest 18.00%) and December 1, 2009 (effective interest 18.00%) and December 1, 2010 (effective interest 18.05%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2003 was \$714,795. A total of \$1,043,399 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2003.

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

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

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

	<u>Balance</u> <u>06/30/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/03</u>
Current interest bonds -				
1994 Series	\$ 3,600,000	\$ -	\$ (620,000)	\$ 2,980,000
Current interest bonds -				
1998 Series	14,910,000	-	(270,000)	14,640,000
Capital appreciation bonds -				
1998 Series	<u>1,481,195</u>	<u>276,999</u>	<u>-</u>	<u>1,758,194</u>
Total	<u>\$ 19,991,195</u>	<u>\$ 276,999</u>	<u>\$ (890,000)</u>	<u>\$ 19,378,194</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 930,000	\$ 910,330	\$ 1,840,330	\$ -	\$ -	\$ -
2005	1,010,000	831,746	1,841,746	-	-	-
2006	1,090,000	762,142	1,852,142	-	-	-
2007	1,150,000	702,743	1,852,743	-	-	-
2008	-	672,000	672,000	1,210,000	-	1,210,000
2009 - 2013	2,490,000	3,237,250	5,727,250	3,620,000	-	3,620,000
2014 - 2018	7,425,000	1,852,125	9,277,125	-	-	-
2019 - 2020	3,525,000	178,125	3,703,125	-	-	-
Total	\$ 17,620,000	\$ 9,146,461	\$ 26,766,461	\$ 4,830,000	\$ -	\$ 4,830,000

- C. On April 19, 1997, the District issued energy conservation bonds for the purpose of upgrading buildings owned by the District to reduce energy consumption. The bonds were issued at 5.71% for 17 years with semi-annual payments due in June and December. The bonds will be retired from a debt service fund.

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

Fiscal Year Ending June 30	Principal	Interest	Total
2004	\$ 250,000	\$ 21,435	\$ 271,435
2005	260,000	7,280	267,280
Total	\$ 510,000	\$ 28,715	\$ 538,715

D. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$33,754,806 (including available funds of \$1,419,897) and an unvoted debt margin of \$580,257.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components derives from negotiated agreements and state laws. Classified employees earn ten to thirty days of vacation per fiscal year, depending upon the length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 300 days for all personnel. Upon completion of ten or more years of service to the District, state, or other political subdivision, and retirement from the profession, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 59 days for certified employees and 62 days for classified employees. In addition, upon retirement, \$10 is paid for each day of sick leave accumulated above 200 days, up to a maximum of \$1,000.

B. Insurance Benefits

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

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. During fiscal year 2003, the District has contracted with private for various types of insurance as follows:

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

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

B. Group Health and Dental Insurance

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 11 - RISK MANAGEMENT - (Continued)

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

C. Workers' Compensation

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$629,243, \$765,349, and \$705,938, respectively; 41.16% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$370,272, represents the unpaid contribution for fiscal year 2003.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

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

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

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

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$2,380,506, \$2,841,539, and \$2,715,592, respectively; 82.92% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$406,604, represents the unpaid contribution for fiscal year 2003.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2003, certain members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$170,036 during fiscal 2003.

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

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

For this fiscal year, employer contributions to fund health care benefits were 5.83% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$363,485 during the 2003 fiscal year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

Net Change in Fund Balance	
	<u>General Fund</u>
Budget basis	\$ (43,381)
Net adjustment for revenue accruals	1,159,847
Net adjustment for expenditure accruals	(985,917)
Net adjustment for other sources/uses	(106,679)
Adjustment for encumbrances	<u>705,141</u>
GAAP basis	<u>\$ 729,011</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

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

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

NOTE 16 - STATUTORY RESERVES

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

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

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2002	\$ (364,372)	\$ -	\$ 141,997
Current year set-aside requirement	646,844	646,844	
Qualifying disbursements	<u>(717,474)</u>	<u>(1,552,673)</u>	<u>-</u>
Total	<u>\$ (435,002)</u>	<u>\$ (905,829)</u>	<u>\$ 141,997</u>
Balance carried forward to FY 2004	<u>\$ (435,002)</u>	<u>\$ -</u>	<u>\$ 141,997</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 16 - STATUTORY RESERVES - (Continued)

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

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

A schedule of the restricted assets at June 30, 2003 follows:

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

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NORTH CANTON CITY SCHOOL DISTRICT
STARK COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster: Food Distribution Program	N/A	10.550	\$0	\$48,006	\$0	\$48,006
National School Lunch Program	LL-P4-2003	10.555	133,624	0	133,624	0
Total U.S. Department of Agriculture			133,624	48,006	133,624	48,006
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster: Special Education Grants to States (IDEA Part B)	6B-SF-2003-P 6B-SF-2002-P	84.027	461,419 16,623	0 0	386,123 42,921	0 0
Total Special Education Grants to States			478,042	0	429,044	0
Special Education Preschool Grants	PG-S1-2003-P PG-S1-2002-P PG-S1-2001-P	84.173	27,657 8,582 0	0 0 0	26,625 6,275 1	0 0 0
Total Special Education Preschool Grants			36,239	0	32,901	0
Total Special Education Cluster			514,281	0	461,945	0
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-2003 C1-S1-2002	84.010	252,080 540	0 0	143,657 78,397	0 0
Total Grants to Local Educational Agencies			252,620	0	222,054	0
Drug-Free Schools Grant	DR-S1-2003 DR-S1-2002	84.186	16,257 0	0 0	16,257 8,318	0 0
Total Drug-Free Schools Grant			16,257	0	24,575	0
Eisenhower Professional Development State Grant (Title II, Part B)	MS-S1-2002 MS-S1-2001	84.281	(8,793) 0	0 0	0 2,413	0 0
Total Eisenhower Professional Development State Grant			(8,793)	0	2,413	0
Innovative Educational Program Strategies (ESEA Title VI)	C2-S1-2003 C2-S1-2002 C2-S1-2001 C2-S1-2000	84.298	48,865 0 0 0	0 0 0 0	45,031 8,329 14,445 4,682	0 0 0 0
Total Innovative Educational Program Strategies			48,865	0	72,487	0
School Renovation Grants (ATIP)	AT-S3-2002 AT-S2-2002	84.352	7,668 22,372	0 0	7,668 22,372	0 0
Total School Renovation Grants			30,040	0	30,040	0
Education Technology State Grants (Title II-D)	TJ-S1-2003 TJ-S1-2002	84.318	6,145 0	0 0	3,301 17,540	0 0
Total Education Technology State Grants			6,145	0	20,841	0
Teacher Quality Enhancement Grants	QE-S1-2002	84.336	6,984	0	4,462	0
Class Size Reduction	CR-S1-2002	84.340	6,286	0	0	0
English Language Acquisition Grants (Title III)	T3-S1-2003	84.365	450	0	378	0
Improving Teacher Quality State Grants (Title IIA)	TR-S1-2003	84.367	135,514	0	135,514	0
<i>Passed Through Plain Local School District - Fiscal Agent of Compact:</i>						
Vocational Education - Basic Grants to State	CP-111-502-093	84.048	29,934	0	25,291	0
Total U.S. Department of Education			1,038,583	0	1,000,000	0
Totals			\$1,172,207	\$48,006	\$1,133,624	\$48,006

The accompanying notes to this schedule are an integral part of this schedule.

**NORTH CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had no significant food commodities.

NOTE C – TRANSFERABILITY OF FEDERAL FUNDS

During 2003, the District made the following reallocations from original budgeted federal programs to other federal programs approved by the Ohio Department of Education:

<u>Fund</u>	<u>CFDA Number</u>	<u>Reallocations</u>
Eisenhower Professional Development State Grant	84.281	(\$8,793)
Improving Teacher Quality State Grants	84.367	8,793
		<hr/>
Total		<u><u>\$0</u></u>

The Schedule reports the reallocated expenditures in the receiving program ultimately authorized to receive and disburse the monies.



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the North Canton City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated March 11, 2004 wherein we noted the District adopted Governmental Accounting Standards Board Statement 34 and the District increased its capitalization threshold for capital assets from \$500 to \$10,000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 11, 2004.

Internal Control Over Financial Reporting

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

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 11, 2004.

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

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

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

Betty Montgomery
Auditor of State

March 11, 2004



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the North Canton City School District, Stark County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003. However, we noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to the management of North Canton City School District in a separate letter dated March 11, 2004.

Internal Control Over Compliance

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

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

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



Betty Montgomery
Auditor of State

March 11, 2004

**NORTH CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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**Auditor of State
Betty Montgomery**

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NORTH CANTON CITY SCHOOL DISTRICT

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 13, 2004**