

**CANTON LOCAL
SCHOOL DISTRICT**

STARK COUNTY, OHIO

BASIC FINANCIAL STATEMENTS

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2006*

A. MICHAEL BICHSEL, TREASURER



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Canton Local School District, Stark County, prepared by Julian and Grube, Inc., for the audit period July 1, 2005 to June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 14, 2007

This Page is Intentionally Left Blank.

**CANTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

TABLE OF CONTENTS

Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 12
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund	19
Statement of Fiduciary Net Assets - Fiduciary Funds	20
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	21
Notes to the Basic Financial Statements.....	22 - 53
Supplemental Data	
Schedule of Receipts and Expenditures of Federal Awards	54
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	55 - 56
Report on Compliance With Requirements Applicable to Its Major Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i>	57 - 58
Schedule of Findings <i>OMB Circular A-133 § .505</i>	59 - 60

This Page is Intentionally Left Blank.



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, its major funds, and the aggregate remaining fund information of the Canton Local School District, Stark County (the "District") as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 the 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, the discretely presented component units, its major funds, and the aggregate remaining fund information of the Canton Local School District, Stark County, Ohio, as of June 30, 2006, and the respective changes in financial position there of and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report
Canton Local School District
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated, December 13, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 13, 2006

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

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

The management's discussion and analysis of the Canton Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities decreased \$1,030,979 which represents a 20.08% decrease from 2005.
- General revenues accounted for \$19,663,542 in revenue or 86.00% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,200,205 or 14.00% of total revenues of \$22,863,747.
- The District had \$23,894,726 in expenses related to governmental activities; only \$3,200,205 of these expenses was offset by program specific charges for services and sales, grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$19,663,542 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$21,269,628 in revenues and other financing sources and \$21,929,829 in expenditures. During fiscal 2006, the general fund's fund deficit balance increased \$660,201 from \$1,654,482 to \$2,314,683.
- The District's other major governmental fund is the debt service fund. The debt service fund had no revenues or expenditures during fiscal 2006. The debt service fund has no fund balance.

Using These Basic Financial Statements

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

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

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

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The government-wide financial statements include not only the activity of Canton Local School District itself (known as the primary government), but also two legally separate community schools for which the District is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

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

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

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-53 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2006 and 2005.

	Net Assets	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 15,729,454	\$ 16,077,145
Capital assets	<u>5,968,531</u>	<u>5,334,063</u>
Total assets	<u>21,697,985</u>	<u>21,411,208</u>
<u>Liabilities</u>		
Current liabilities	14,084,012	13,649,600
Long-term liabilities	<u>3,510,341</u>	<u>2,626,997</u>
Total liabilities	<u>17,594,353</u>	<u>16,276,597</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	4,814,542	5,156,194
Restricted	648,573	431,752
Unrestricted (deficit)	<u>(1,359,483)</u>	<u>(453,335)</u>
Total net assets	<u>\$ 4,103,632</u>	<u>\$ 5,134,611</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$4,103,632. Of this total, \$648,573 is restricted in use.

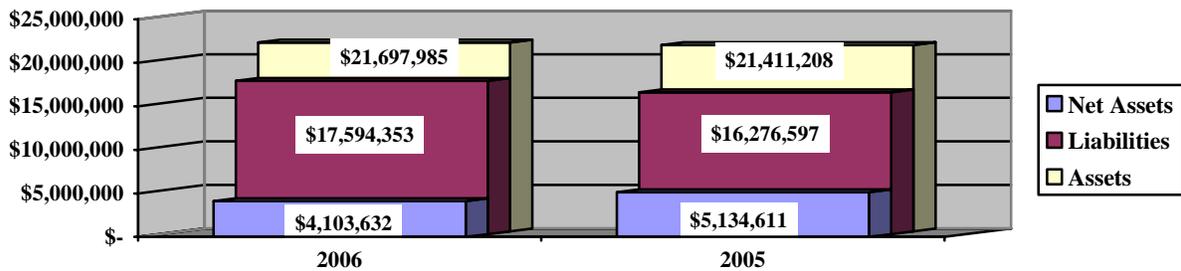
**CANTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

At year-end, capital assets represented 27.51% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$4,814,542. 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, \$648,573, represents resources that are subject to external restriction on how they may be used. The remaining balance is a deficit of unrestricted net assets.

Governmental Activities



The table below shows the change in net assets for fiscal years 2006 and 2005.

Change in Net Assets

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,507,086	\$ 1,948,357
Operating grants and contributions	1,693,119	1,633,587
Capital grants and contributions	-	23,415
General revenues:		
Property taxes	10,870,889	10,405,836
Grants and entitlements	8,505,745	8,392,579
Investment earnings	122,760	52,243
Miscellaneous	<u>164,148</u>	<u>192,974</u>
 Total revenues	 <u>\$ 22,863,747</u>	 <u>\$ 22,648,991</u>

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

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

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 9,551,324	\$ 9,245,986
Special	2,698,621	2,495,500
Vocational	1,709,199	1,616,237
Other	17,728	1,750
Support services:		
Pupil	1,336,226	1,522,526
Instructional staff	1,174,432	1,199,786
Board of education	19,376	20,875
Administration	1,561,267	1,502,431
Fiscal	252,843	248,302
Business	339,746	317,790
Operations and maintenance	2,136,635	2,106,914
Pupil transportation	1,028,083	944,554
Central	354,771	293,884
Operations of non-instructional services	71,909	70,833
Food service operations	1,077,938	982,127
Extracurricular activities	558,586	547,237
Interest and fiscal charges	<u>6,042</u>	<u>8,911</u>
Total expenses	<u>23,894,726</u>	<u>23,125,643</u>
Change in net assets	(1,030,979)	(476,652)
Net assets at beginning of year	<u>5,134,611</u>	<u>5,611,263</u>
Net assets at end of year	<u>\$ 4,103,632</u>	<u>\$ 5,134,611</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$1,030,979. Total governmental expenses of \$23,894,726 were offset by program revenues of \$3,200,205 and general revenues of \$19,663,542. Program revenues supported 13.39% of the total governmental expenses.

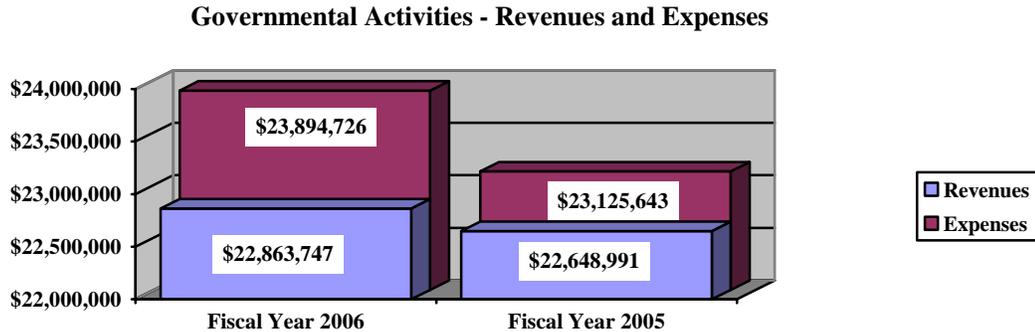
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 84.75% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$13,976,872 or 58.49% of total governmental expenses for fiscal 2006.

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

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

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



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

Governmental Activities

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program expenses				
Instruction:				
Regular	\$ 9,551,324	\$ 8,851,695	\$ 9,245,986	\$ 8,122,632
Special	2,698,621	2,189,001	2,495,500	2,004,345
Vocational	1,709,199	1,584,046	1,616,237	1,613,145
Other	17,728	(7,455)	1,750	(12,799)
Support services:				
Pupil	1,336,226	1,088,914	1,522,526	1,241,154
Instructional staff	1,174,432	1,082,740	1,199,786	1,126,850
Board of education	19,376	19,376	20,875	20,875
Administration	1,561,267	1,430,626	1,502,431	1,374,102
Fiscal	252,843	252,843	248,302	248,302
Business	339,746	339,746	317,790	317,790
Operations and maintenance	2,136,635	2,109,835	2,106,914	2,025,847
Pupil transportation	1,028,083	1,024,113	944,554	932,016
Central	354,771	328,087	293,884	266,234
Operations of non-instructional services	71,909	(103,375)	70,833	(158,862)
Food service operations	1,077,938	32,824	982,127	(48,186)
Extracurricular activities	558,586	465,463	547,237	437,928
Interest and fiscal charges	6,042	6,042	8,911	8,911
Total expenses	<u>\$ 23,894,726</u>	<u>\$ 20,694,521</u>	<u>\$ 23,125,643</u>	<u>\$ 19,520,284</u>

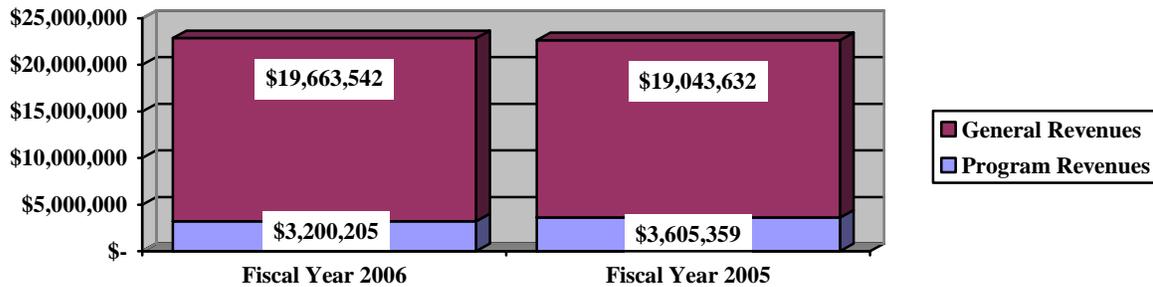
**CANTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

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

The dependence upon tax and other general revenues for governmental activities is apparent, 90.27% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.61%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund deficit balance of \$1,594,037, which is a decrease in fund balance from last year's deficit total of \$1,179,170. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance (Deficit) <u>June 30, 2006</u>	Fund Balance (Deficit) <u>June 30, 2005</u>	Increase (Decrease)
General	\$(2,314,683)	\$(1,654,482)	\$ (660,201)
Other Governmental	<u>720,646</u>	<u>475,312</u>	<u>245,334</u>
Total	<u>\$(1,594,037)</u>	<u>\$(1,179,170)</u>	<u>\$ (414,867)</u>

General Fund

The District's general fund deficit fund balance increased \$660,201 from a deficit balance of \$1,654,482 to a deficit balance of \$2,314,683. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

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

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 10,990,899	\$ 10,256,686	\$ 734,213	7.16 %
Tuition	277,571	638,045	(360,474)	(56.50) %
Earnings on investments	115,586	51,480	64,106	124.53 %
Intergovernmental	8,479,113	8,370,339	108,774	1.30 %
Other revenues	<u>344,104</u>	<u>381,140</u>	<u>(37,036)</u>	(9.72) %
 Total	 <u>\$ 20,207,273</u>	 <u>\$ 19,697,690</u>	 <u>\$ 509,583</u>	 2.59 %
<u>Expenditures</u>				
Instruction	\$ 12,837,249	\$ 12,560,767	\$ 276,482	2.20 %
Support services	7,567,590	7,255,277	312,313	4.30 %
Extracurricular activities	436,953	415,878	21,075	5.07 %
Facilities acquisition and construction	575	-	575	100.00 %
Capital outlay	1,062,355	-	1,062,355	100.00 %
Debt service	<u>25,107</u>	<u>25,107</u>	<u>-</u>	- %
 Total	 <u>\$ 21,929,829</u>	 <u>\$ 20,257,029</u>	 <u>\$ 1,672,800</u>	 8.26 %

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 2006, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$20,857,016, which was higher than the original budgeted revenues estimate of \$20,001,000. Actual revenues and other financing sources for fiscal 2006 were \$20,866,683 which was \$9,667 higher than final budgeted revenues.

General fund original appropriations (expenditures and other financing uses) of \$20,589,039 were increased to \$21,434,927 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$21,371,939, which was \$62,988 less than the final budgeted appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$5,968,531 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

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

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

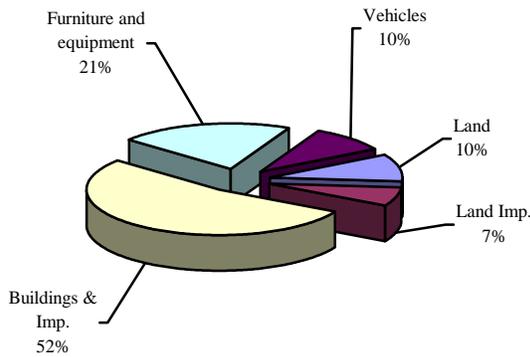
**Capital Assets at June 30
(Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 577,182	\$ 535,212
Land improvements	395,672	419,652
Building and improvements	3,172,982	3,391,509
Furniture and equipment	1,252,022	338,457
Vehicles	570,673	649,233
Total	<u>\$ 5,968,531</u>	<u>\$ 5,334,063</u>

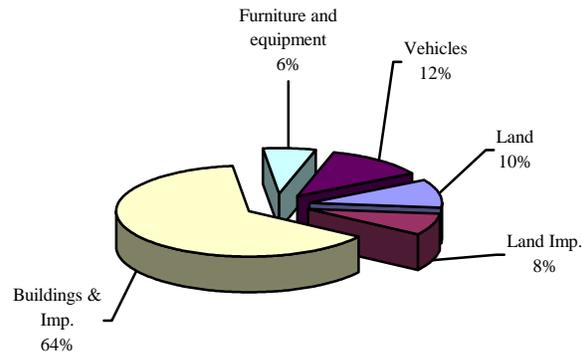
The overall increase in capital assets of \$634,468 is due to capital outlays of \$1,120,456 exceeding depreciation expense of \$485,988 in the fiscal year.

The graphs below present the District's capital assets for fiscal 2006 and fiscal 2005.

Capital Assets - Governmental Activities 2006



Capital Assets - Governmental Activities 2005



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

Debt Administration

At June 30, 2006, the District had no bonded debt obligations outstanding. The District's only debt administration relates to a capital lease obligation. During fiscal 2006, the District entered into a capital lease in the amount of \$1,062,355. During fiscal 2006, the District made capital lease principal payments of \$86,235. The remaining capital lease obligation at June 30, 2006 was \$1,153,989.

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

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

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

Current Financial Related Activities

The Canton Local School District had a temporary levy up for renewal in 2006. It was a combined operating and permanent improvement issue. The Board voted to place a renewal with an increase of 3.9 mills on the May 2, 2006 ballot. The issue was successful and tax collections will start in January, 2007. The new issue will be in effect for five years. It is the Board's plan to use the additional revenue for operational costs and building and equipment maintenance and repairs. Nine tenths of a mill will be dedicated to the purchase of new classroom technology and related equipment.

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. A. Michael Bichsel, Treasurer, Canton Local School District, 4526 Ridge Avenue SE, Canton, OH 44707.

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government	Component Units	
	Governmental Activities	Canton Local Digital Academy	Aspire Academy
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,284,247	\$ -	\$ -
Cash and cash equivalents	-	158,760	234
Receivables:			
Taxes	13,501,520	-	-
Accounts	74,968	-	-
Intergovernmental	245,169	5,389	2,339
Loans.	592,995	-	-
Prepayments	20,063	494	719
Inventory held for resale	10,492	-	-
Capital assets:			
Land.	577,182	-	-
Depreciable capital assets, net	5,391,349	-	7,199
Capital assets, net.	<u>5,968,531</u>	<u>-</u>	<u>7,199</u>
Total assets.	<u>21,697,985</u>	<u>164,643</u>	<u>10,491</u>
Liabilities:			
Accounts payable.	90,820	-	-
Accrued wages and benefits	3,098,851	-	-
Pension obligation payable.	691,123	-	-
Intergovernmental payable	113,796	31,401	35,593
Deferred revenue	10,089,422	-	-
Long-term liabilities:			
Due within one year.	479,510	-	-
Due within more than one year	3,030,831	-	-
Total liabilities	<u>17,594,353</u>	<u>31,401</u>	<u>35,593</u>
Net Assets:			
Invested in capital assets, net of related debt.	4,814,542	-	7,199
Restricted for:			
Capital projects	320,494	-	-
State funded programs.	9,026	632	-
Federally funded programs.	158,916	5,389	2,573
Student activities.	4,894	-	-
Public school support.	52,157	-	-
Other purposes	103,086	-	-
Unrestricted (deficit)	<u>(1,359,483)</u>	<u>127,221</u>	<u>(34,874)</u>
Total net assets	<u>\$ 4,103,632</u>	<u>\$ 133,242</u>	<u>\$ (25,102)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Primary Government	Component Units	
				Governmental Activities	Canton Local Digital Academy	Aspire Academy
Governmental activities:						
Instruction:						
Regular	\$ 9,551,324	\$ 508,931	\$ 190,698	\$ (8,851,695)	\$ -	\$ -
Special	2,698,621	-	509,620	(2,189,001)	-	-
Vocational	1,709,199	48,723	76,430	(1,584,046)	-	-
Other	17,728	25,183	-	7,455	-	-
Support services:						
Pupil	1,336,226	-	247,312	(1,088,914)	-	-
Instructional staff	1,174,432	-	91,692	(1,082,740)	-	-
Board of education	19,376	-	-	(19,376)	-	-
Administration	1,561,267	67,194	63,447	(1,430,626)	-	-
Fiscal	252,843	-	-	(252,843)	-	-
Business	339,746	-	-	(339,746)	-	-
Operations and maintenance	2,136,635	25,658	1,142	(2,109,835)	-	-
Pupil transportation	1,028,083	-	3,970	(1,024,113)	-	-
Central	354,771	-	26,684	(328,087)	-	-
Operation of non-instructional services	71,909	154,228	21,056	103,375	-	-
Food service operations	1,077,938	584,046	461,068	(32,824)	-	-
Extracurricular activities	558,586	93,123	-	(465,463)	-	-
Interest and fiscal charges	6,042	-	-	(6,042)	-	-
Total governmental activities	\$ 23,894,726	\$ 1,507,086	\$ 1,693,119	(20,694,521)	-	-
Component Units:						
Canton Local Digital Academy	\$ 356,133	\$ 1,125	\$ 160,864	-	(194,144)	-
Aspire Academy	321,307	244	5,573	-	-	(315,490)
Total component units	\$ 677,440	\$ 1,369	\$ 166,437	-	(194,144)	(315,490)
General Revenues:						
Property taxes levied for:						
General purposes				10,565,889	-	-
Capital outlay				305,000	-	-
Grants and entitlements not restricted to specific programs				8,505,745	206,507	269,401
Investment earnings				122,760	-	-
Miscellaneous				164,148	-	-
Total general revenues				19,663,542	206,507	269,401
Change in net assets				(1,030,979)	12,363	(46,089)
Net assets at beginning of year				5,134,611	120,879	20,987
Net assets (deficit) at end of year				\$ 4,103,632	\$ 133,242	\$ (25,102)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<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	\$ 400,561	\$ -	\$ 791,851	\$ 1,192,412
Receivables:				
Taxes	11,136,040	1,923,000	442,480	13,501,520
Accounts	74,943	-	25	74,968
Intergovernmental	7,511	-	237,658	245,169
Loans	592,995	-	-	592,995
Interfund loans	62,817	-	-	62,817
Prepayments	20,063	-	-	20,063
Inventory held for resale	-	-	10,492	10,492
Restricted assets:				
Equity in pooled cash and cash equivalents	91,835	-	-	91,835
Total assets	<u>\$ 12,386,765</u>	<u>\$ 1,923,000</u>	<u>\$ 1,482,506</u>	<u>\$ 15,792,271</u>
Liabilities:				
Accounts payable	\$ 74,779	\$ -	\$ 16,041	\$ 90,820
Accrued wages and benefits	3,006,561	-	92,290	3,098,851
Compensated absences payable	218,528	-	7,509	226,037
Pension obligation payable.	621,575	-	69,548	691,123
Intergovernmental payable.	109,057	-	4,739	113,796
Interfund loan payable	-	-	62,817	62,817
Early retirement incentive payable.	2,898	-	1,266	4,164
Deferred revenue.	10,668,050	1,923,000	507,650	13,098,700
Total liabilities	<u>14,701,448</u>	<u>1,923,000</u>	<u>761,860</u>	<u>17,386,308</u>
Fund Balances:				
Reserved for encumbrances	206,004	-	86,558	292,562
Reserved for prepayments	20,063	-	-	20,063
Reserved for inventory.	-	-	10,492	10,492
Reserved for property tax unavailable for appropriation	467,990	-	17,490	485,480
Reserved for school bus purchases.	91,835	-	-	91,835
Unreserved, undesignated (deficit), reported in:				
General fund	(3,100,575)	-	-	(3,100,575)
Special revenue funds.	-	-	370,682	370,682
Capital projects funds.	-	-	235,424	235,424
Total fund balances (deficit)	<u>(2,314,683)</u>	<u>-</u>	<u>720,646</u>	<u>(1,594,037)</u>
Total liabilities and fund balances	<u>\$ 12,386,765</u>	<u>\$ 1,923,000</u>	<u>\$ 1,482,506</u>	<u>\$ 15,792,271</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2006

Total governmental fund balances (deficit)		\$ (1,594,037)
<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.		5,968,531
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Taxes	\$ 2,926,620	
Intergovernmental revenue	<u>82,658</u>	
Total		3,009,278
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences	(2,126,151)	
Capital lease obligations	<u>(1,153,989)</u>	
Total		<u>(3,280,140)</u>
Net assets of governmental activities		<u><u>\$ 4,103,632</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/(DEFICIT)
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Taxes	\$ 10,990,899	\$ 314,510	\$ 11,305,409
Tuition.	277,571	-	277,571
Earnings on investments.	115,586	7,940	123,526
Charges for services	48,723	584,046	632,769
Extracurricular.	-	162,067	162,067
Classroom materials and fees	59	58,615	58,674
Other local revenues.	295,322	244,831	540,153
Intergovernmental - state	8,449,172	215,531	8,664,703
Intergovernmental - federal.	29,941	1,476,778	1,506,719
Total revenue	<u>20,207,273</u>	<u>3,064,318</u>	<u>23,271,591</u>
Expenditures:			
Current:			
Instruction:			
Regular	9,006,539	315,554	9,322,093
Special.	2,257,927	487,652	2,745,579
Vocational.	1,560,429	80,375	1,640,804
Other	12,354	5,374	17,728
Support Services:			
Pupil.	1,192,674	234,661	1,427,335
Instructional staff	1,069,253	88,641	1,157,894
Board of education	19,376	-	19,376
Administration.	1,431,761	130,429	1,562,190
Fiscal	252,812	-	252,812
Business	339,746	-	339,746
Operations and maintenance.	2,017,146	4,508	2,021,654
Pupil transportation	926,580	2,256	928,836
Central.	318,242	34,179	352,421
Operation of non-instructional services	-	64,133	64,133
Food service operations	-	1,084,017	1,084,017
Extracurricular activities.	436,953	97,290	534,243
Capital outlay	1,062,355	-	1,062,355
Facilities acquisition and construction	575	122,745	123,320
Debt service:			
Principal retirement	21,380	64,855	86,235
Interest and fiscal charges	3,727	2,315	6,042
Total expenditures	<u>21,929,829</u>	<u>2,818,984</u>	<u>24,748,813</u>
Excess of revenues over (under) expenditures.	<u>(1,722,556)</u>	<u>245,334</u>	<u>(1,477,222)</u>
Other financing sources:			
Capital lease transaction.	1,062,355	-	1,062,355
Total other financing sources.	<u>1,062,355</u>	<u>-</u>	<u>1,062,355</u>
Net change in fund balances	(660,201)	245,334	(414,867)
Fund balances (deficit)			
at beginning of year.	<u>(1,654,482)</u>	<u>475,312</u>	<u>(1,179,170)</u>
Fund balances (deficit) at end of year	<u>\$ (2,314,683)</u>	<u>\$ 720,646</u>	<u>\$ (1,594,037)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds \$ (414,867)

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

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

Capital asset additions	\$	1,120,456	
Current year depreciation		(485,988)	
Total			634,468

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

Taxes		(434,520)	
Intergovernmental		27,442	
Interest		(766)	
Total			(407,844)

Proceeds of capital lease transactions are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenue as they increase liabilities on the statement of net assets. (1,062,355)

Repayment of capital lease obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 86,235

Some expenses reported on the statement of activities, such as compensated absences and early retirement incentives, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 133,384

Change in net assets of governmental activities \$ (1,030,979)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 10,458,009	\$ 10,905,599	\$ 10,905,599	\$ -
Tuition.	348,284	363,190	364,175	985
Earnings on investments.	93,278	97,270	109,949	12,679
Charges for services	39,553	39,553	39,626	73
Classroom materials and fees	57	59	59	-
Other local revenues.	293,545	307,801	307,773	(28)
Intergovernmental - state	8,106,277	8,453,214	8,449,172	(4,042)
Intergovernmental - federal.	28,712	29,941	29,941	-
Total revenue	<u>19,367,715</u>	<u>20,196,627</u>	<u>20,206,294</u>	<u>9,667</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,977,716	9,346,560	9,040,773	305,787
Special.	2,182,892	2,272,576	2,251,322	21,254
Vocational.	1,439,435	1,498,573	1,525,208	(26,635)
Other	31,021	32,296	12,320	19,976
Support Services:				
Pupil.	1,139,397	1,186,208	1,116,733	69,475
Instructional staff	1,009,533	1,051,009	1,066,517	(15,508)
Board of education	24,862	25,883	21,769	4,114
Administration.	1,356,432	1,412,160	1,346,682	65,478
Fiscal	227,028	236,355	243,211	(6,856)
Business	337,488	351,353	346,540	4,813
Operations and maintenance.	1,754,296	1,826,371	2,071,032	(244,661)
Pupil transportation	777,655	809,604	930,200	(120,596)
Central.	293,652	305,717	304,372	1,345
Extracurricular activities.	408,480	425,262	430,681	(5,419)
Facilities acquisition and construction.	-	-	1,075	(1,075)
Total expenditures	<u>19,959,887</u>	<u>20,779,927</u>	<u>20,708,435</u>	<u>71,492</u>
Excess of revenues under expenditures.	<u>(592,172)</u>	<u>(583,300)</u>	<u>(502,141)</u>	<u>81,159</u>
Other financing sources (uses):				
Refund of prior year expenditure	67,393	70,277	70,277	-
Refund of prior year receipts	-	-	(228)	(228)
Sale of capital assets.	9,232	9,627	9,627	-
Transfers out	(4,803)	(5,000)	-	5,000
Advances in.	556,660	580,485	580,485	-
Advances out	(624,349)	(650,000)	(663,276)	(13,276)
Total other financing sources (uses)	<u>4,133</u>	<u>5,389</u>	<u>(3,115)</u>	<u>(8,504)</u>
Net change in fund balance	(588,039)	(577,911)	(505,256)	72,655
Fund balance at beginning of year.	354,598	354,598	354,598	-
Prior year encumbrances appropriated	333,927	333,927	333,927	-
Fund balance at end of year	<u>\$ 100,486</u>	<u>\$ 110,614</u>	<u>\$ 183,269</u>	<u>\$ 72,655</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 97,657	\$ 773,199
Receivables:		
Intergovernmental	-	696,818
Accounts	-	123,802
	97,657	1,593,819
Total assets	97,657	\$ 1,593,819
Liabilities:		
Accounts payable	\$ -	\$ 3,056
Due to other governments	-	887,992
Loans	-	592,995
Undistributed monies	-	66,119
Due to students	-	43,657
	-	1,593,819
Total liabilities	-	\$ 1,593,819
Net Assets:		
Held in trust for scholarships	97,657	
Total net assets	\$ 97,657	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 3,734
Gifts and contributions.	15,819
	19,553
Total additions.	19,553
Deductions:	
Scholarships awarded	15,421
	4,132
Change in net assets	4,132
Net assets at beginning of year	93,525
Net assets at end of year.	\$ 97,657

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Canton Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District is governed by a five-member board of education (the Board) elected by its citizens, which is responsible for the provision of public education to residents of the District.

The District ranks as the 204th largest by total enrollment among the 615 public school districts in the State. The District employs 120 non-certified and 197 certified employees to provide services to approximately 2,510 students in grades K through 12 and various community groups. The District is located in Canton Township, Stark County, Ohio and serves an area of approximately 25 square miles. The District operates three elementary schools, one middle school, and a high school.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the 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; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has two component units. The following organizations are described due to their relationship to the District:

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

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

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

The Five R's Academy

The Five R's Academy is a legally separate, conversion community school, served by a Board of Directors. The Five R's Academy provides students within the District a program using the latest research in Social/Emotional learning to deliver a high quality individualized curriculum. The Board of Directors consists of The Board of Education's Superintendent and two other licensed administrators, other than the Superintendent. The superintendent of the District serves as the chief administrative officer of the Five R's Academy and the District's treasurer serves as the Five R's Academy chief financial officer. Based on the significant services provided by the District to the Five R's Academy, the purpose of servicing the students within the District, and the relationship between the Board of Education of the District and the Board of Directors of the Five R's Academy, the Five R's Academy is reflected as a component unit of the District. Due to the financial activity of the Five R's Academy in relation to the Canton Local School District being immaterial, the financial statements of the Five R's Academy have not been presented, but will be presented in fiscal year 2007 if material.

DISCRETELY PRESENTED COMPONENT UNITS

The Canton Local Digital Academy

The Canton Local Digital Academy (the "Digital Academy") is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03. The Digital Academy is a new conversion school that addresses the needs of students who desire a program of online instruction in an independent environment that does not include the most ancillary components of a more traditional education. The Digital Academy is governed by a five member Board of Directors. The District appoints three of the five Board of Directors. The Digital Academy Board of Directors may adopt budgets, hire and fire employees, and receive funding from the Ohio Department of Education. The District is able to impose its will upon the operations for the Digital Academy, therefore, the financial activity of the Digital Academy are presented as a discretely presented component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Digital Academy at 4526 Ridge Ave. SE, Canton, Ohio 44707.

Aspire Academy

The Aspire Academy (the "Academy") is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03. The Academy is a new conversion school that is designed for middle school students who have a desire for, and whose education can be optimized by, a program that includes a focus on rigor, relevance, relationships, respect, and responsibility built into an interdisciplinary hands-on collaborative approach to education. The Academy is governed by a five member Board of Directors. The District appoints three of the five Board of Directors. The Academy Board of Directors may adopt budgets, hire and fire employees, and receive funding from the Ohio Department of Education. The District is able to impose its will upon the operations for the Academy, therefore, the financial activity of the Academy are presented as a discretely presented component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Academy at 4526 Ridge Ave. SE, Canton, Ohio 44707.

Information in the following notes to the basic financial statements is applicable to the primary government. Information relative to the component units can be found in Note 19 and Note 20 to these basic financial statements.

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

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

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

JOINTLY GOVERNED ORGANIZATIONS

Stark/Portage Area Computer Consortium (SPARCC)

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

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

R.G. Drage Career Center

The R.G. Drage Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a seven member Board, consisting of one representative from each of the six participating district's boards, one board member that rotates from each participating district, and has its own budgeting and taxing authority. Financial information can be obtained by writing the R.G. Drage Career Center, 6805 Richville Drive, S.W., Massillon, Ohio 44646.

Stark County Tax Incentive Review Council (SCTIRC)

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

PUBLIC ENTITY RISK POOLS

Risk Sharing Pool

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

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

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

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

Insurance Purchasing Pool

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; (b) for food service 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.

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

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

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

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

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

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, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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.

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

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

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

E. Budgets

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

Tax Budget:

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 statement reflect the amounts from the certificate of amended resources that was in effect at the time the original and final appropriations were passed by the Board of Education.

Appropriations:

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

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

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

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

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

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

Lapsing of Appropriations:

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

F. Cash and 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 2006, investments were limited to overnight repurchase agreements, U.S. Government money markets, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

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

Under existing Ohio 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 2006 amounted to \$115,586, which includes \$78,891 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.

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

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

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

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

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 cost of inventory items are recorded as an expenditure in the governmental funds when consumed.

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000 for its general capital assets. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

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.

J. 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 State monies received for school bus purchases. See Note 17 for additional information regarding set-asides.

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

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

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

K. Compensated Absences

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

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

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.

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences 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.

M. 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, prepayments, supplies inventory, property taxes unavailable for appropriation and school bus purchases. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

N. 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.

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

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

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

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

O. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved on the fund financial statements by an amount equal to the carrying value of the asset.

P. Estimates

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

Q. Vocational Education

The District has entered into a career technical education agreement with the Sandy Valley Local School District and the Osnaburg Local School District to provide career technical education programs for students of the three participating districts. The District is the principal agency for the programs and is responsible for the physical facilities of the programs. For fiscal year 2006, in accordance with the agreement, the District was to receive a service charge equal to \$190,000 from the Sandy Valley Local School District and \$95,000 from the Osnaburg Local School District related to providing these programs. Actual service charges are reduced by all State aid received by the District for Sandy Valley Local School District and Osnaburg Local School District students attending the District for these programs.

R. Interfund Activity

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

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

S. 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 2006.

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

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

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

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Major Fund</u>	<u>Deficit</u>
General Fund	\$ 2,314,683
<u>Non Major Governmental Funds</u>	
Entry Year Grant	25
Poverty Based Assistance	84
Miscellaneous federal grants	398

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. The deficit balances result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Cash on Hand

At year-end, the District had \$258 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$783,614, exclusive of the \$215,000 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$772,285 of the District's bank balance of \$925,444 was exposed to custodial risk as discussed below, while \$153,159 was covered by Federal Deposit Insurance Corporation.

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

C. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreement	\$ 215,000	\$ 215,000
STAR Ohio	649,356	649,356
U.S. Government money market	506,875	506,875
	<u>\$ 1,371,231</u>	<u>\$ 1,371,231</u>

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 215,000	15.68
STAR Ohio	649,356	47.36
U.S. Government money market	506,875	36.96
	<u>\$ 1,371,231</u>	<u>100.00</u>

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

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

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

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 783,614
Investments	1,371,231
Cash on hand	258
Total	<u>\$ 2,155,103</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,284,247
Private-purpose trust funds	97,657
Agency funds	773,199
Total	<u>\$ 2,155,103</u>

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

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

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund loans receivable/payable consisted of the following at June 30, 2006, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 62,817

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the Statement of Net Assets.

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

<u>Loan From</u>	<u>Loan To</u>	<u>Amount</u>
General	Agency	\$ 592,995

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

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

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

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

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. 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.

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

The District receives property taxes from Stark County. The County Auditor periodically advances to the District the portion of the taxes collected. Second-half real property tax payments collected by the County Auditor by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available as an advance at June 30, 2006 was \$467,990 in the general fund and \$17,490 in the Permanent Improvement capital projects fund (a nonmajor governmental fund). The amount that was available as advance at June 30, 2005 was \$382,690 in the general fund and \$14,330 in the Permanent Improvement capital projects fund (a nonmajor governmental fund).

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

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

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

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 219,943,530	63.83	\$ 225,090,540	67.90
Public Utility Personal	35,852,690	10.40	36,218,090	10.93
Tangible Personal Property	<u>88,814,610</u>	<u>25.77</u>	<u>70,201,068</u>	<u>21.17</u>
Total	<u>\$ 344,610,830</u>	<u>100.00</u>	<u>\$ 331,509,698</u>	<u>100.00</u>
Tax Rate per \$1,000 of assessed valuation for:				
Operations	\$ 45.20		\$ 45.20	
Permanent improvements	1.00		1.00	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of Federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Property taxes	\$ 13,501,520
Accounts	74,968
Intergovernmental	<u>245,169</u>
Total	<u>\$ 13,821,657</u>

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

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During a prior fiscal year, the District entered into capitalized lease agreements for the acquisition of fitness equipment and a steam boiler. In addition, in the current year, the District entered into a capitalized lease agreement for the acquisition of computer equipment.

These leases meet the criteria of capital leases as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, the leases were accounted for as a capital outlay expenditure and other financing source in the general fund. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements and as a reduction of the lease liability in the government-wide financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

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

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

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

Capital assets acquired by lease have been capitalized in the statement of net assets in the amount of \$1,449,256, which is equal to the present value of the future minimum lease payments as of the date of inception. Accumulated depreciation as of June 30, 2006 was \$232,211, leaving a current book value of \$1,217,045. A corresponding liability was recorded in the statement of net assets. Principal payments in the 2006 fiscal year totaled \$86,235. This amount is reflected as debt service principal retirement in the general fund and the special revenue fund (other governmental funds).

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2006.

<u>Year Ending June 30</u>	<u>Equipment</u>
2007	\$ 313,255
2008	277,466
2009	262,673
2010	247,886
2011	<u>245,617</u>
Total minimum lease payment	1,346,897
Less: amount representing interest	<u>(192,908)</u>
Present value of minimum lease payments	<u>\$ 1,153,989</u>

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance 07/01/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/06</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 535,212	\$ 41,970	\$ -	\$ 577,182
Total capital assets, not being depreciated	<u>535,212</u>	<u>41,970</u>	<u>-</u>	<u>577,182</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,223,527	-	-	1,223,527
Buildings and improvements	12,013,973	-	-	12,013,973
Furniture and equipment	1,394,825	1,078,486	-	2,473,311
Vehicles	<u>1,627,389</u>	<u>-</u>	<u>-</u>	<u>1,627,389</u>
Total capital assets, being depreciated	<u>16,259,714</u>	<u>1,078,486</u>	<u>-</u>	<u>17,338,200</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(803,875)	(23,980)	-	(827,855)
Buildings and improvements	(8,622,464)	(218,527)	-	(8,840,991)
Furniture and equipment	(1,056,368)	(164,921)	-	(1,221,289)
Vehicles	<u>(978,156)</u>	<u>(78,560)</u>	<u>-</u>	<u>(1,056,716)</u>
Total accumulated depreciation	<u>(11,460,863)</u>	<u>(485,988)</u>	<u>-</u>	<u>(11,946,851)</u>
Governmental activities capital assets, net	<u>\$ 5,334,063</u>	<u>\$ 634,468</u>	<u>\$ -</u>	<u>\$ 5,968,531</u>

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

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

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 240,422
Special	3,202
Vocational	54,464

Support Services:

Pupil	3,057
Instructional staff	5,290
Administration	4,086
Operations and maintenance	40,200
Pupil transportation	97,192
Central	692
Operation of non-instructional	7,776
Extracurricular activities	24,343
Food service operations	<u>5,264</u>

Total depreciation expense	<u>\$ 485,988</u>
----------------------------	-------------------

NOTE 10 - LONG-TERM OBLIGATIONS

During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	<u>Balance</u> <u>07/01/05</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>06/30/06</u>	<u>Due in</u> <u>One Year</u>
Compensated absences	\$ 2,436,055	\$ 86,891	\$ (170,758)	\$ 2,352,188	\$ 226,037
Early retirement incentive	13,073	4,164	(13,073)	4,164	4,164
Capital lease obligations	<u>177,869</u>	<u>1,062,355</u>	<u>(86,235)</u>	<u>1,153,989</u>	<u>249,309</u>
Total	<u>\$ 2,626,997</u>	<u>\$ 1,153,410</u>	<u>\$ (270,066)</u>	<u>\$ 3,510,341</u>	<u>\$ 479,510</u>

The capital lease obligation will be paid from the general fund and special revenue fund (other governmental funds). Compensated absences and the early retirement incentive will be paid from the fund from which the employee is paid.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made to certified and classified employees for one-fourth of accrued, but unused sick leave credit up to a maximum 64 and 65 days, respectively.

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

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

NOTE 11 - OTHER EMPLOYEE BENEFITS - (Continued)

B. Insurance Benefits

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

C. Special Termination Benefit Payable

The District approved an Early Retirement Incentive Plan (ERIP), which runs from July 1, 2002 through June 30, 2006. Participation is open to all classified employees. Employees retiring from the District shall receive twenty days at their regular rate, payable the January following the employee's retirement. As of June 30, 2006, a total of \$4,164 is the liability for this ERIP for employees who took advantage of the ERIP as of fiscal year-end. The final payments will be made in fiscal 2007.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees and natural disasters. During fiscal year 2006, the District contracted with Indiana Insurance Company for education liability, commercial auto coverage, property, general and excess liability insurance. The Indiana Insurance Company also covers boiler and machinery, inland marine, audio/visual equipment, and musical instruments. Coverages under these policies are as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage Amount</u>
Indiana Insurance	Commercial Property	\$77,981,700
	Computers and Equipment	814,406
	Musical Instruments	310,413
	Commercial Auto - Garage Operations	2,000,000
	Non Auto - Garage Operations	1,000,000
	Uninsured Motorists Bodily Injury	50,000
	Uninsured Motorist Property Damage	7,500
	General Liability, in aggregate	5,000,000
	General Liability, per occurrence	5,000,000
	Fire Damage	100,000
	Medical Expense	15,000

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

B. Employee Health Benefits

The District has contracted with Stark County Schools Council of Governments (a shared risk pool) (Note 2) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District's Board of Education pays the entire cost of a monthly premium. For fiscal year 2006, the District cost for paid premium for medical and dental was \$914.64 for family coverage and \$375.85 for single coverage, per month.

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

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

NOTE 12 - 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. The Directors have the right to hold monies for an exiting district subsequent to the settlement of all expenses and claims.

C. Workers' Compensation

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

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

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$318,127, \$325,852, and \$280,426, respectively; 47.75% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$166,209 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

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

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

NOTE 13 - PENSION PLANS - (Continued)

B. State Teachers Retirement System

The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,352,470, \$1,365,335, and \$1,337,013, respectively; 81.64% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$248,285 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2006 were \$9,105 made by the District and \$26,791 made by plan members.

C. Social Security System

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

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

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

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$104,036 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, the District paid \$167,157 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

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

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

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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		\$ (505,256)
Net adjustment for revenue accruals		979
Net adjustment for expenditure accruals		(1,530,521)
Net adjustment for other sources/uses		1,065,470
Adjustment for encumbrances		<u>309,127</u>
GAAP basis		<u>\$ (660,201)</u>

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

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

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

NOTE 17 - 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.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisitions. Disclosure of this information is required by State statute.

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ (607,216)	\$ (610,862)
Current year set-aside requirement	386,200	386,200
Current year offsets	-	(311,350)
Qualifying disbursements	<u>(386,875)</u>	<u>(439,906)</u>
Total	<u>\$ (607,891)</u>	<u>\$ (975,918)</u>
Balance carried forward to FY 2007	<u>\$ (607,891)</u>	<u>\$ (922,212)</u>

The amount of qualifying disbursements exceeding the set-aside requirement in the textbooks reserve may be carried forward to reduce the set-aside requirement for future years. In addition, the District had offsets and qualifying disbursements that reduced the capital acquisition set-aside amount below zero. The current year offset in the Capital Acquisition set-aside may be carried forward to offset future year's requirements and the excess qualifying disbursements may not be carried forward to future years.

In addition to the above statutory reserves, the District also received monies restricted by State statute for school bus purchases.

A schedule of the restricted assets at June 30, 2006 follows:

Amount restricted for school bus purchases	<u>\$ 91,835</u>
--	------------------

NOTE 18 - SUBSEQUENT EVENTS

The District issued \$1,836,000 in current tax revenue notes on July 3, 2006. The notes bear an interest rate of 4.75% and mature on June 29, 2007.

NOTE 19 - CANTON LOCAL DIGITAL ACADEMY

The Canton Local Digital Academy (the "Digital Academy") is a discretely presented component unit of the Canton Local School District (the "District"). The District is the Sponsor of the Digital Academy. The Digital Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Canton Local Digital Academy, 4526 Ridge Avenue, Canton, Ohio 44707.

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

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

NOTE 19 - CANTON LOCAL DIGITAL ACADEMY - (Continued)

A. Significant Accounting Policies

The basic financial statements (BFS) of the Digital Academy 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 Digital Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Digital Academy has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The Digital Academy's significant accounting policies are described below.

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

Measurement Focus and Basis of Accounting - Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Budgetary Process - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Digital Academy's contract with its Sponsor. The contract between the Digital Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

Cash - All monies received by the Digital Academy are deposited in a demand deposit account.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Digital Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

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

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

NOTE 19 - CANTON LOCAL DIGITAL ACADEMY - (Continued)

Intergovernmental Revenue - The Digital Academy currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which they are earned, essentially the same as the fiscal year.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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 Digital Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Digital Academy on a reimbursement basis. Federal and State grants for the fiscal year 2006 received by the Digital Academy was \$160,864.

Prepayments - Certain payments to vendors reflected the costs applicable to future accounting periods and were recorded as prepaid items in the financial statements. These items were reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts was recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activity of the Digital Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Digital Academy. All revenues and expenses not meeting this definition are reported as non-operating.

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

B. Deposits

At June 30, 2006, the carrying amount of the Digital Academy's deposits was \$158,760 and the bank balance was \$158,980. Of the bank balance, \$100,000 was covered by federal depository insurance with the remaining \$58,980 being uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Digital Academy to a successful claim by the FDIC.

C. Receivables

At June 30, 2006, receivables consisted of intergovernmental revenues which are considered collectible within one year and presented on the statement of net assets in the amount of \$5,389.

D. Risk Management

The Digital Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2006, the Digital Academy was named on the Sponsor's policy for property and general liability insurance. The Digital Academy provides employee bond coverage through Ohio Casualty Insurance in the following amounts: Treasurer \$50,000 and Board of Directors \$20,000.

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

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

NOTE 19 - CANTON LOCAL DIGITAL ACADEMY - (Continued)

E. Service Agreement

The Community School Sponsorship Contract (the "Contract") between the Digital Academy and Canton Local School District outlined the specific payments to be made by the Digital Academy to Canton Local School District during fiscal year 2006. The Contract stated that the two parties agreed to pay mutually agreed upon amounts, including fees for any services provided to the Digital Academy by Canton Local School District. The following payments were made in fiscal year 2006 from the Digital Academy to Canton Local School District:

Educational services	\$289,070
----------------------	-----------

Additionally, the Contract allows, based on mutual agreement, for the payment of \$150 per student per year from the Digital Academy to the sponsor, in accordance with Ohio Revised Code 3314.08.

F. Contingencies

Grants - The Digital Academy received financial assistance from federal and state agencies in the form of grants. The expenditure 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. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Digital Academy at June 30, 2006.

Litigation - A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

NOTE 20 - ASPIRE ACADEMY

The Aspire Academy (the "Academy") is a discretely presented component unit of the Canton Local School District (the "District"). The District is the Sponsor of the Academy. The Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Aspire Academy, 4526 Ridge Avenue, Canton, Ohio 44707.

A. Significant Accounting Policies

The basic financial statements (BFS) of the Academy 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 Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The Academy's significant accounting policies are described below.

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

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

NOTE 20 - ASPIRE ACADEMY - (Continued)

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

Measurement Focus and Basis of Accounting - Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Budgetary Process - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

Cash - All monies received by the Academy are deposited in a demand deposit account.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

Intergovernmental Revenue - The Academy currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which they are earned, essentially the same as the fiscal year.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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 Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Federal and State grant revenue for the period August 23, 2005 through June 30, 2006 received by the Academy was \$5,573.

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

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

NOTE 20 - ASPIRE ACADEMY - (Continued)

Capital Assets and Depreciation - All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$5,000. The Academy does not have 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 capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Furniture and equipment is depreciated over five years.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

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

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

B. Deposits

At June 30, 2006, the carrying amount of the Academy's deposits and the bank balance was \$234. The entire bank balance was covered by federal depository insurance.

C. Receivables

At June 30, 2006, receivables consisted of intergovernmental revenues which are considered collectible within one year and presented on the statement of net assets in the amount of \$2,339.

D. Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2006, the Academy was named on the Sponsor's policy for property and general liability insurance. The Academy provides employee bond coverage through Leonard Insurance Services in the following amounts: Treasurer \$50,000 and Board of Directors \$20,000.

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

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

NOTE 20 - ASPIRE ACADEMY - (Continued)

E. Service Agreement

The Community School Sponsorship Contract (the "Contract") between the Academy and the Canton Local School District (as Sponsor) outlined the specific payments to be made by the Academy to the Sponsor during the period August 23, 2005 through June 30, 2006. The Contract stated that the two parties agreed to pay mutually agreed upon amounts, including fees for any services provided to the Academy by the Sponsor. The following payments were made during the period August 23, 2005 through June 30, 2006 from the Academy to the Sponsor:

Educational services	\$283,938
----------------------	-----------

Additionally, the Contract allows, based on mutual agreement, for the payment of \$150 per student per year from the Academy to the Sponsor, in accordance with Ohio Revised Code 3314.08.

F. Capital Assets

Capital asset activity for the period August 23, 2005 through June 30, 2006, was as follows:

	Balance at August 23, 2005	Additions	Disposals	Balance at June 30, 2006
Furniture and equipment	\$ -	\$ 7,999	\$ -	\$ 7,999
Less: accumulated depreciation	-	(800)	-	(800)
Capital assets, net	\$ -	\$ 7,199	\$ -	\$ 7,199

G. Contingencies

Grants - The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure 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. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

Litigation - A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

H. Start-Up Period

The Academy began its operations on August 23, 2005. At August 23, 2005, the Academy recorded \$20,987 in cash, resulting in beginning net assets at August 23, 2005 of \$20,987.

SUPPLEMENTAL DATA

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

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(D) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(D) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Nutrition Cluster:						
(A) (B) Food Donation	10.550	N/A	\$ -	\$ 63,383	\$ -	\$ 63,383
(A) (C) School Breakfast Program	10.553	049833-05PU-2005	8,994	-	8,994	-
(A) (C) School Breakfast Program	10.553	049833-05PU-2006	56,028	-	56,028	-
Total School Breakfast Program			<u>65,022</u>	<u>-</u>	<u>65,022</u>	<u>-</u>
(A) (C) National School Lunch Program	10.555	049833-LLP4-2005	45,269	-	45,269	-
(A) (C) National School Lunch Program	10.555	049833-LLP4-2006	222,321	-	222,321	-
(A) (C) National School Lunch Program	10.555	049833-VGS1-2005	12,339	-	12,339	-
Total National School Lunch Program			<u>279,929</u>	<u>-</u>	<u>279,929</u>	<u>-</u>
Total U.S. Department of Agriculture and Nutrition Cluster			<u>344,951</u>	<u>63,383</u>	<u>344,951</u>	<u>63,383</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION						
Title I Grants to Local Educational Agencies	84.010	049833-C1S1-2005	36,027	-	36,408	-
Title I Grants to Local Educational Agencies	84.010	049833-C1S1-2006	183,658	-	184,332	-
Total Title I Grants to Local Educational Agency			<u>219,685</u>	<u>-</u>	<u>220,740</u>	<u>-</u>
Special Education Grants to States	84.027	049833-6BPB-2006	20,387	-	19,390	-
Special Education Grants to States	84.027	049833-6BSD-2005	6,426	-	10,018	-
Special Education Grants to States	84.027	049833-6BSD-2006	21,481	-	22,101	-
Special Education Grants to States	84.027	049833-6BSF-2005	101,275	-	16,673	-
Special Education Grants to States	84.027	049833-6BSF-2006	506,447	-	506,422	-
Total Special Education Grants to State			<u>656,016</u>	<u>-</u>	<u>574,604</u>	<u>-</u>
Vocational Education Basic Grants to States	84.048	049833-20C1-2005	8,488	-	6,941	-
Vocational Education Basic Grants to States	84.048	049833-20C1-2006	88,350	-	87,915	-
Total Vocational Education Basis Grants to State			<u>96,838</u>	<u>-</u>	<u>94,856</u>	<u>-</u>
Safe and Drug-Free Schools and Communities State Grant	84.186	049833-DRS1-2005	-	-	4,482	-
Safe and Drug-Free Schools and Communities State Grant	84.186	049833-DRS1-2006	6,345	-	5,835	-
Total Safe and Drug-Free Schools and Communities State Grant			<u>6,345</u>	<u>-</u>	<u>10,317</u>	<u>-</u>
(E) State Grants for Innovative Programs	84.298	049833-C2S1-2005	(288)	-	1,805	-
State Grants for Innovative Programs	84.298	049833-C2S1-2006	5,361	-	6,359	-
Total State Grants for Innovative Program			<u>5,073</u>	<u>-</u>	<u>8,164</u>	<u>-</u>
(F) Education Technology State Grant	84.318	049833-TJS1-2005	(915)	-	7,481	-
Education Technology State Grant	84.318	049833-TJS1-2006	4,497	-	4,895	-
Total Education Technology State Grant			<u>3,582</u>	<u>-</u>	<u>12,376</u>	<u>-</u>
(G) Improving Teacher Quality State Grants	84.367	049833-TRS1-2005	(1,757)	-	-	-
Improving Teacher Quality State Grants	84.367	049833-TRS1-2006	73,142	-	80,786	-
Total Improving Teacher Quality State Grant			<u>71,385</u>	<u>-</u>	<u>80,786</u>	<u>-</u>
Total U.S. Department of Education			<u>1,058,924</u>	<u>-</u>	<u>1,001,843</u>	<u>-</u>
U.S. DEPARTMENT OF HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES						
State Children's Insurance Program	93.767	N/A	3,786	-	3,786	-
Medical Assistance Program	93.778	N/A	27,352	-	27,352	-
Total U.S. Department of Human Services			<u>31,138</u>	<u>-</u>	<u>31,138</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 1,435,013</u>	<u>\$ 63,383</u>	<u>\$ 1,377,932</u>	<u>\$ 63,383</u>

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs
(B) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
(C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on first-in, first-out basis.
(D) This schedule was prepared on the cash basis of accounting
(E) Amount of \$288 was transferred to the next grant year based on Ohio Department of Education administrative action
(F) Amount of \$915 was transferred to the next grant year based on Ohio Department of Education administrative action
(G) Amount of \$1,757 was transferred to the next grant year based on Ohio Department of Education administrative action



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

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

We have audited the financial statements of the governmental activities, the discretely presented component units, its major funds, and the aggregate remaining fund information of the Canton Local School District as of and for the fiscal year ended June 30, 2006, which collectively comprises the Canton Local School District's basic financial statements and have issued our report thereon dated December 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Canton Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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 Canton Local School District in a separate letter dated December 13, 2006.

Board of Education
Canton Local School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Canton Local School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-CLSD-001. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Canton Local School District in a separate letter dated December 13, 2006.

This report is intended solely for the information and use of management and the Board of the Canton Local School District, 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 cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 13, 2006



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Its
Major Federal Program and on Internal Control Over
Compliance In Accordance With *OMB Circular A-133***

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

Compliance

We have audited the compliance of the Canton Local School 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 fiscal year ended June 30, 2006. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Canton Local School District's management. Our responsibility is to express an opinion on the Canton Local School 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, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Canton Local School 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 Canton Local School District's compliance with those requirements.

In our opinion, the Canton Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2006.

Board of Education
Canton Local School District

Internal Control Over Compliance

The management of the Canton Local School 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 Canton Local School District's internal control over compliance with requirements that could have a direct and material effect on its 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to its 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 the management, the Board of the Canton Local School District, 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.



Julian & Grube, Inc.
December 13, 2006

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

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

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

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

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

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

Finding Number	2006-CLSD-001
----------------	---------------

Ohio Revised Code Section 5705.41(D) requires that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

It was noted during the audit that 35% of the expenditures tested were not certified in a timely manner.

Without proper certification the District may expend more funds than available in the treasury or in the process of collection, or than funds appropriated. It may also result in unnecessary or undesirable purchases.

We recommend that all orders or contracts involving the expenditure of money be timely certified to ensure all monies expended are lawfully appropriated and available in the treasury or in the process of collection. The District should consider using "Then" and "Now" certificates where applicable.

Client response:

The Treasurer will attempt to use Then and Now certificates when applicable and issue purchase orders before invoices.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None.



Mary Taylor, CPA
Auditor of State

CANTON LOCAL SCHOOL DISTRICT
STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 27, 2007