

Mary Taylor, CPA
Auditor of State

**NORTH CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Canton City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of North Canton City School District, Stark County, Ohio, as of June 30, 2007, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Mary Taylor, CPA
Auditor of State

January 11, 2008

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

The discussion and analysis of the North Canton City School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. 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 2007 are as follows:

- In total, net assets of governmental activities increased \$161,918 which represents a 8.39% increase from 2006.
- General revenues accounted for \$38,315,457 in revenue or 86.36% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$6,049,423 or 13.64% of total revenues of \$44,364,880.
- The District had \$44,202,962 in expenses related to governmental activities; only \$6,049,423 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$38,315,457 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$37,795,393 in revenues and \$38,333,773 in expenditures and other financing uses. During fiscal 2007, the general fund's fund deficit balance increased \$577,969 from \$2,540,806 to \$3,118,775.
- The debt service fund had \$2,315,995 in revenues and other financing sources and \$2,027,887 in expenditures. During fiscal 2007, the debt service fund's fund balance increased \$288,108 from \$1,052,576 to \$1,340,684.

Using the Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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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 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-48 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 2007 and 2006.

	Net Assets	
	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Assets</u>		
Current and other assets	\$ 26,298,781	\$ 26,946,052
Capital assets	<u>23,623,487</u>	<u>23,549,802</u>
Total assets	<u>49,922,268</u>	<u>50,495,854</u>
<u>Liabilities</u>		
Current liabilities	26,395,340	26,691,877
Long-term liabilities	<u>21,436,214</u>	<u>21,875,181</u>
Total liabilities	<u>47,831,554</u>	<u>48,567,058</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	7,783,692	7,270,905
Restricted	1,838,129	1,859,690
Unrestricted (deficit)	<u>(7,531,107)</u>	<u>(7,201,799)</u>
Total net assets	<u>\$ 2,090,714</u>	<u>\$ 1,928,796</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$2,090,714. At year-end, restricted net assets were \$1,838,129.

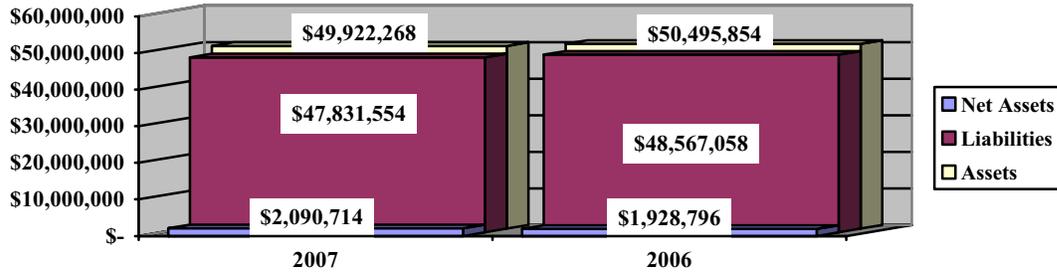
At year-end, capital assets represented 47.32% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$7,783,692. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,838,129, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$7,531,107.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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Governmental Activities



The table below shows the change in net assets for fiscal years 2007 and 2006.

Change in Net Assets

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 2,726,087	\$ 2,547,552
Operating grants and contributions	3,203,894	2,055,939
Capital grants and contributions	119,442	-
General revenues:		
Property taxes	21,999,691	19,536,998
Grants and entitlements	15,728,615	15,993,071
Investment earnings	338,407	312,331
Miscellaneous	<u>248,744</u>	<u>297,733</u>
Total revenues	<u>\$ 44,364,880</u>	<u>\$ 40,743,624</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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Change in Net Assets

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	19,008,189	18,778,871
Special	3,122,268	3,075,412
Vocational	1,659,071	1,615,996
Adult	41,646	23,328
Other	28,736	65,078
Support services:		
Pupil	2,267,780	2,127,239
Instructional staff	2,463,114	2,198,387
Board of education	24,706	42,854
Administration	3,261,343	3,021,075
Fiscal	908,429	841,235
Business	82,537	47,685
Operations and maintenance	3,826,532	3,787,489
Pupil transportation	2,694,257	2,480,238
Central	398,210	387,983
Operations of non-instructional services	144,436	46,094
Food service operations	1,317,900	1,324,765
Extracurricular activities	1,330,591	1,182,922
Intergovernmental	302,790	208,192
Interest and fiscal charges	<u>1,320,427</u>	<u>1,272,327</u>
Total expenses	<u>44,202,962</u>	<u>42,527,170</u>
Change in net assets	161,918	(1,783,546)
Net assets at beginning of year	<u>1,928,796</u>	<u>3,712,342</u>
Net assets at end of year	<u>\$ 2,090,714</u>	<u>\$ 1,928,796</u>

Governmental Activities

Net assets of the District's governmental activities increased \$161,918. Total governmental expenses of \$44,202,962 were offset by program revenues of \$6,049,423 and general revenues of \$38,315,457. Program revenues supported 13.69% of the total governmental expenses.

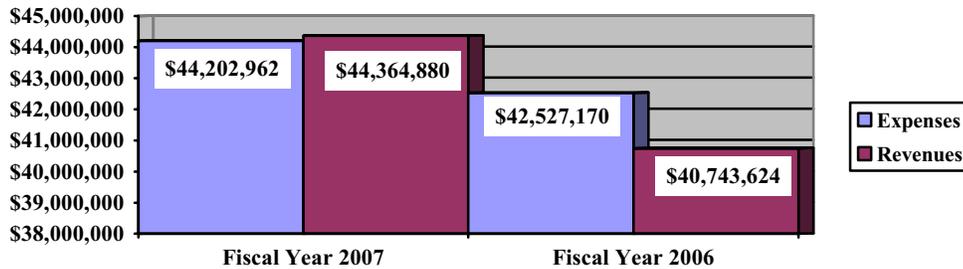
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 85.04% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2007 and 2006.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program expenses				
Instruction:				
Regular	\$ 19,008,189	\$ 18,308,207	\$ 18,778,871	\$ 17,912,963
Special	3,122,268	1,997,820	3,075,412	2,811,405
Vocational	1,659,071	1,372,494	1,615,996	1,585,370
Adult	41,646	8,290	23,328	6,573
Other	28,736	28,736	65,078	35,674
Support services:				
Pupil	2,267,780	1,768,427	2,127,239	1,604,646
Instructional staff	2,463,114	2,018,149	2,198,387	1,831,780
Board of education	24,706	24,706	42,854	42,854
Administration	3,261,343	2,746,036	3,021,075	2,533,373
Fiscal	908,429	908,429	841,235	841,235
Business	82,537	49,983	47,685	47,685
Operation and maintenance	3,826,532	3,687,055	3,787,489	3,728,915
Pupil transportation	2,694,257	2,515,344	2,480,238	2,480,238
Central	398,210	370,167	387,983	350,329
Operations of non-instructional services	144,436	102,611	46,094	19,824
Food service operations	1,317,900	59,405	1,324,765	74,143
Extracurricular activities	1,330,591	808,709	1,182,922	778,762
Intergovernmental	302,790	58,544	208,192	(34,417)
Interest and fiscal charges	1,320,427	1,320,427	1,272,327	1,272,327
Total expenses	\$ 44,202,962	\$ 38,153,539	\$ 42,527,170	\$ 37,923,679

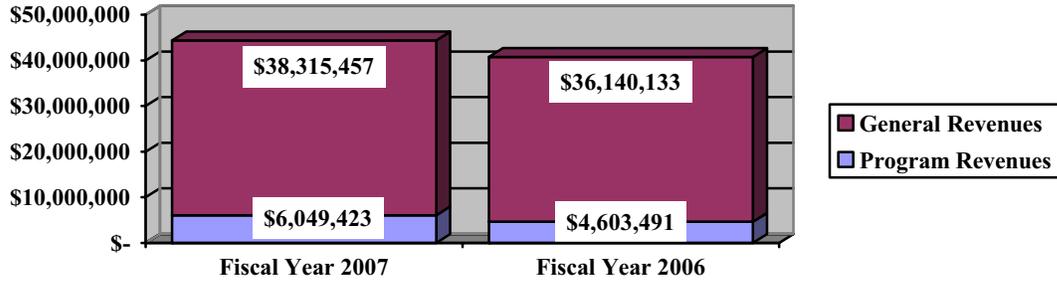
The dependence upon tax and other general revenues for governmental activities is apparent, 91.01% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.31%. The District's taxpayers, as a whole, are the primary support for District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal years 2007 and 2006.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined deficit fund balance of \$1,025,666, which is a larger deficit than last year's total deficit of \$517,304. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance (Deficit) <u>June 30, 2007</u>	Fund Balance (Deficit) <u>June 30, 2006</u>	Increase (Decrease)
General	\$ (3,118,775)	\$ (2,540,806)	\$ (577,969)
Debt Service	1,340,684	1,052,576	288,108
Other Governmental	<u>752,425</u>	<u>970,926</u>	<u>(218,501)</u>
Total	<u>\$ (1,025,666)</u>	<u>\$ (517,304)</u>	<u>\$ (508,362)</u>

General Fund

The District's general fund deficit balance increased \$577,969. The increase in fund deficit balance can be attributed primarily to an increase in revenues still not being enough to cover increased expenditures. The table that follows assists in illustrating the financial activities and fund balance of the general fund. The increase in tax revenue is due to the passage of an operating levy in May 2006. The collection of the levy started during fiscal year 2007. The increases in instructional and support expenditures were caused primarily by the increasing costs of wages and benefits.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

	<u>2007</u>	<u>2006</u>	<u>Increase</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease)</u>	<u>Change</u>
<u>Revenues</u>				
Taxes	\$ 19,884,417	\$ 17,712,484	\$ 2,171,933	12.26 %
Tuition	451,710	441,640	10,070	2.28 %
Earnings on investments	338,407	299,610	38,797	12.95 %
Intergovernmental	16,717,400	15,791,397	926,003	5.86 %
Other revenues	<u>403,459</u>	<u>447,065</u>	<u>(43,606)</u>	(9.75) %
Total	<u>\$ 37,795,393</u>	<u>\$ 34,692,196</u>	<u>\$ 3,103,197</u>	8.94 %
<u>Expenditures</u>				
Instruction	\$ 22,290,819	\$ 21,820,363	\$ 470,456	2.16 %
Support services	14,318,453	13,103,079	1,215,374	9.28 %
Operation of non-instructional services	96,077	19,641	76,436	389.17 %
Extracurricular activities	645,223	659,843	(14,620)	(2.22) %
Facilities acquisition and construction	<u>838,764</u>	<u>1,420,230</u>	<u>(581,466)</u>	(40.94) %
Total	<u>\$ 38,189,336</u>	<u>\$ 37,023,156</u>	<u>\$ 1,166,180</u>	3.15 %

Debt Service Fund

The debt service fund had \$2,315,995 in revenues and other financing sources and \$2,027,887 in expenditures. During fiscal 2007, the debt service fund's fund balance increased \$288,108 from \$1,052,576 to \$1,340,684. The increase in fund balance can be attributed to an increase in tax revenue to cover the debt retirement which is detailed in Note 9 to the basic financial statements.

General Fund Budgeting Highlights

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

During the course of fiscal 2007, the District amended its general fund budget numerous times. For the general fund, original budgeted revenues and other financing sources of \$37,368,082 were increased to \$37,802,082 in the final budget. Actual revenues and other financing sources for fiscal 2007 was \$37,727,336. This represents a \$74,746 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$38,386,541 were increased to \$38,671,253 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$38,653,920, which was \$17,333 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$23,623,487 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 2007 balances compared to 2006:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED

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

	Governmental Activities	
	2007	2006
Land	\$ 1,785,562	\$ 1,785,562
Land improvements	817,332	888,517
Building and improvements	19,963,360	18,936,441
Furniture and equipment	448,034	406,830
Vehicles	609,199	558,350
Construction in progress	-	974,102
Total	<u>\$ 23,623,487</u>	<u>\$ 23,549,802</u>

Total additions to capital assets for 2007 were \$1,133,073. The District recorded \$1,057,710 in depreciation expense for fiscal 2007.

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

Debt Administration

At June 30, 2007, the District had \$18,615,474 in general obligation bonds and an energy conservation loan outstanding. Of this total, \$1,305,000 is due within one year and \$17,310,474 is due within more than one year. The following table summarizes the bonds and loan outstanding.

Outstanding Debt, at Year End

	Governmental Activities	Governmental Activities
	2007	2006
General obligation bonds	\$ 16,930,474	\$ 17,530,559
Energy conservation loan	1,685,000	1,761,210
Total	<u>\$ 18,615,474</u>	<u>\$ 19,291,769</u>

At June 30, 2007, the District's voted debt margin was \$47,935,327 with an unvoted debt margin of \$674,994.

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

Current Financial Related Activities

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

The District's financial outlook is beginning to change. During this time, the Board of Education and administration will continue to closely monitor its revenues and expenditures to ensure they are in accordance with its financial forecast. Overall, the District continues to perform at the highest level determined by the State of Ohio, which is measured by a defined set of proficiency criteria. Our most recent state report card shows the district students achieving a 29 out of 30 and an "Excellent" rating for the 7th straight year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The District has communicated to the community that they rely upon their support for the major part of its operations, and will continue to work diligently to plan expenses, staying carefully within the District's five-year financial plan. State law limits the growth of income generated by local levies rendering revenue relatively constant. This lack of revenue growth forces the District to come back to the voters from time to time and ask for additional financial support. The District successfully passed a 6.5 mill continuing operating levy in May 2006. Collection of this new levy began in January 2007.

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

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

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

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

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 4,260,695
Receivables:	
Taxes	21,809,807
Accounts	7,989
Intergovernmental	153,930
Materials and supplies inventory	66,360
Capital assets:	
Land	1,785,562
Depreciable capital assets, net	21,837,925
Capital assets, net	<u>23,623,487</u>
 Total assets.	 <u>49,922,268</u>
Liabilities:	
Accounts payable.	218,924
Accrued wages and benefits	4,925,300
Pension obligation payable.	961,791
Intergovernmental payable	184,141
Unearned revenue	20,041,267
Accrued interest payable	63,917
Long-term liabilities:	
Due within one year.	1,672,433
Due within more than one year	19,763,781
 Total liabilities	 <u>47,831,554</u>
Net Assets:	
Invested in capital assets, net of related debt.	7,783,692
Restricted for:	
Capital projects	112,242
Debt service.	1,335,888
Locally funded programs	58,211
State funded programs.	19,838
Federally funded programs	842
Student activities	251,560
Other purposes	59,548
Unrestricted (deficit)	<u>(7,531,107)</u>
 Total net assets	 <u>\$ 2,090,714</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 19,008,189	\$ 553,348	\$ 146,634	\$ -	\$ (18,308,207)
Special	3,122,268	9,407	1,115,041	-	(1,997,820)
Vocational	1,659,071	14,869	271,708	-	(1,372,494)
Adult	41,646	33,356	-	-	(8,290)
Other	28,736	-	-	-	(28,736)
Support services:					
Pupil	2,267,780	-	499,353	-	(1,768,427)
Instructional staff	2,463,114	2,078	442,887	-	(2,018,149)
Board of education	24,706	-	-	-	(24,706)
Administration	3,261,343	421,165	94,142	-	(2,746,036)
Fiscal	908,429	-	-	-	(908,429)
Business	82,537	-	-	32,554	(49,983)
Operations and maintenance	3,826,532	139,477	-	-	(3,687,055)
Pupil transportation	2,694,257	-	92,025	86,888	(2,515,344)
Central	398,210	2,525	25,518	-	(370,167)
Operation of non-instructional services:					
Food service operations	1,317,900	1,027,980	230,515	-	(59,405)
Extracurricular activities	1,330,591	521,882	-	-	(808,709)
Intergovernmental	302,790	-	244,246	-	(58,544)
Interest and fiscal charges	1,320,427	-	-	-	(1,320,427)
Total governmental activities	\$ 44,202,962	\$ 2,726,087	\$ 3,203,894	\$ 119,442	(38,153,539)
General Revenues:					
Property taxes levied for:					
General purposes					20,020,516
Debt service					1,979,175
Grants and entitlements not restricted to specific programs					
Investment earnings					15,728,615
Miscellaneous					338,407
					248,744
Total general revenues					38,315,457
Change in net assets					161,918
Net assets at beginning of year					1,928,796
Net assets at end of year					\$ 2,090,714

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<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	\$ 1,853,030	\$ 1,246,797	\$ 1,101,320	\$ 4,201,147
Receivables:				
Taxes	19,922,887	1,886,920	-	21,809,807
Accounts	7,965	-	24	7,989
Intergovernmental	6,579	-	147,351	153,930
Interfund loans	2,500	-	-	2,500
Materials and supplies inventory	48,414	-	17,946	66,360
Restricted assets:				
Equity in pooled cash and cash equivalents	59,548	-	-	59,548
Total assets	\$ 21,900,923	\$ 3,133,717	\$ 1,266,641	\$ 26,301,281
Liabilities:				
Accounts payable	\$ 98,447	\$ -	\$ 120,477	\$ 218,924
Accrued wages and benefits	4,608,427	-	316,873	4,925,300
Compensated absences payable	162,631	-	-	162,631
Retirement incentive payable	122,500	-	-	122,500
Pension obligation payable	925,029	-	36,762	961,791
Intergovernmental payable	171,080	-	13,061	184,141
Interfund loans payable	-	-	2,500	2,500
Deferred revenue	624,229	59,121	24,543	707,893
Unearned revenue	18,307,355	1,733,912	-	20,041,267
Total liabilities	25,019,698	1,793,033	514,216	27,326,947
Fund Balances:				
Reserved for encumbrances	263,915	-	117,705	381,620
Reserved for materials and supplies inventory	48,414	-	17,946	66,360
Reserved for property tax unavailable for appropriation	991,303	93,887	-	1,085,190
Reserved for instructional materials	15,607	-	-	15,607
Reserved for school bus purchases	43,941	-	-	43,941
Reserved for debt service	-	1,246,797	-	1,246,797
Unreserved, undesignated (deficit), reported in:				
General fund	(4,481,955)	-	-	(4,481,955)
Special revenue funds	-	-	504,532	504,532
Capital projects funds	-	-	112,242	112,242
Total fund balances (deficit)	(3,118,775)	1,340,684	752,425	(1,025,666)
Total liabilities and fund balances	\$ 21,900,923	\$ 3,133,717	\$ 1,266,641	\$ 26,301,281

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total governmental fund balances		\$ (1,025,666)
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		23,623,487
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 683,350	
Intergovernmental revenue	<u>24,543</u>	
Total		707,893
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(16,930,474)	
Energy conservation loan	(1,685,000)	
Compensated absences	(2,355,609)	
Retirement incentive	(180,000)	
Accrued interest payable	<u>(63,917)</u>	
Total		<u>(21,215,000)</u>
Net assets of governmental activities		<u><u>\$ 2,090,714</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 19,884,417	\$ 1,957,624	\$ -	\$ 21,842,041
Tuition	451,710	-	-	451,710
Earnings on investments	338,407	-	12,385	350,792
Charges for services	-	-	1,017,761	1,017,761
Classroom materials and fees	4,685	-	259,361	264,046
Extracurricular	6,043	-	772,677	778,720
Other local revenues	392,731	-	60,660	453,391
Intergovernmental - Intermediate	-	-	99,111	99,111
Intergovernmental - State	16,717,400	213,934	335,774	17,267,108
Intergovernmental - Federal	-	-	1,661,228	1,661,228
Total revenue	<u>37,795,393</u>	<u>2,171,558</u>	<u>4,218,957</u>	<u>44,185,908</u>
Expenditures:				
Current:				
Instruction:				
Regular	17,808,039	-	243,832	18,051,871
Special	2,848,474	-	310,514	3,158,988
Vocational	1,599,048	-	46,336	1,645,384
Adult	6,522	-	35,124	41,646
Other	28,736	-	-	28,736
Support Services:				
Pupil	1,766,467	-	497,490	2,263,957
Instructional staff	2,049,463	-	385,796	2,435,259
Board of education	18,652	-	-	18,652
Administration	2,686,266	-	520,904	3,207,170
Fiscal	876,187	30,708	-	906,895
Business	49,983	-	32,554	82,537
Operations and maintenance	3,816,203	-	-	3,816,203
Pupil transportation	2,709,497	-	-	2,709,497
Central	345,735	-	30,603	376,338
Operation of non-instructional services	96,077	-	48,000	144,077
Food service operations	-	-	1,325,106	1,325,106
Extracurricular activities	645,223	-	663,994	1,309,217
Facilities acquisition and construction	838,764	-	-	838,764
Intergovernmental pass through	-	-	302,790	302,790
Debt service:				
Principal retirement	-	1,226,210	-	1,226,210
Interest and fiscal charges	-	770,969	-	770,969
Total expenditures	<u>38,189,336</u>	<u>2,027,887</u>	<u>4,443,043</u>	<u>44,660,266</u>
Excess of revenues over (under) expenditures	(393,943)	143,671	(224,086)	(474,358)
Other financing sources (uses):				
Transfers in	-	144,437	-	144,437
Transfers (out)	(144,437)	-	-	(144,437)
Total other financing sources (uses)	<u>(144,437)</u>	<u>144,437</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(538,380)	288,108	(224,086)	(474,358)
Fund balances (deficit) at beginning of year	(2,540,806)	1,052,576	970,926	(517,304)
Increase (decrease) in reserve for inventory	(39,589)	-	5,585	(34,004)
Fund balances (deficit) at end of year	<u>\$ (3,118,775)</u>	<u>\$ 1,340,684</u>	<u>\$ 752,425</u>	<u>\$ (1,025,666)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds \$ (474,358)

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

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

Capital asset additions	\$ 1,133,073	
Current year depreciation	<u>(1,057,710)</u>	
Total		75,363

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (1,678)

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

Taxes	157,650	
Intergovernmental	<u>21,322</u>	
Total		178,972

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 1,226,210

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. The following items resulted in additional interest being reported on the statement of activities:

Decrease in accrued interest payable	457	
Accreted interest on capital appreciation bonds	<u>(549,915)</u>	
Total		(549,458)

Governmental funds report expenditures for inventory when purchased, however, in the statement of activities, they are reported as expenses when consumed. (34,004)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (259,129)

Change in net assets of governmental activities \$ 161,918

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 19,688,440	\$ 19,917,105	\$ 19,719,184	\$ (197,921)
Tuition.	420,813	425,700	451,710	26,010
Earnings on investments.	340,051	344,000	338,407	(5,593)
Extracurricular.	5,930	6,000	6,043	43
Classroom materials and fees	4,943	5,000	4,685	(315)
Other local revenues.	396,495	401,100	406,124	5,024
Intergovernmental - State	16,511,410	16,703,177	16,717,400	14,223
Total revenue	<u>37,368,082</u>	<u>37,802,082</u>	<u>37,643,553</u>	<u>(158,529)</u>
Expenditures:				
Current:				
Instruction:				
Regular	17,819,694	17,951,862	17,855,757	96,105
Special.	2,922,385	2,944,060	2,875,797	68,263
Vocational.	1,525,522	1,536,837	1,584,956	(48,119)
Adult.	5,906	5,950	6,522	(572)
Other	32,675	32,917	27,172	5,745
Support Services:				
Pupil.	1,739,696	1,752,599	1,718,974	33,625
Instructional staff	1,964,036	1,978,603	2,047,717	(69,114)
Board of education	25,158	25,345	20,134	5,211
Administration.	2,589,668	2,608,875	2,640,773	(31,898)
Fiscal	900,301	906,979	869,425	37,554
Business	54,100	54,501	49,983	4,518
Operations and maintenance.	3,805,860	3,834,088	3,904,196	(70,108)
Pupil transportation	2,600,952	2,620,243	2,700,925	(80,682)
Central.	403,245	406,236	361,862	44,374
Operation of non-instructional services	90,063	90,731	95,263	(4,532)
Extracurricular activities.	652,693	657,534	654,761	2,773
Facilities acquisition and construction.	1,091,353	1,099,448	1,074,800	24,648
Total expenditures	<u>38,223,307</u>	<u>38,506,808</u>	<u>38,489,017</u>	<u>17,791</u>
Excess of revenues over (under) expenditures.	<u>(855,225)</u>	<u>(704,726)</u>	<u>(845,464)</u>	<u>(140,738)</u>
Other financing sources (uses):				
Refund of prior year expenditure	-	-	70,776	70,776
Refund of prior year receipts	-	-	(4,959)	(4,959)
Transfers out	(163,234)	(164,445)	(144,437)	20,008
Advances in.	-	-	13,007	13,007
Advances out	-	-	(15,507)	(15,507)
Total other financing sources (uses)	<u>(163,234)</u>	<u>(164,445)</u>	<u>(81,120)</u>	<u>83,325</u>
Net change in fund balance	(1,018,459)	(869,171)	(926,584)	(57,413)
Fund balance at beginning of year	1,170,340	1,170,340	1,170,340	-
Prior year encumbrances appropriated	1,320,386	1,320,386	1,320,386	-
Fund balance at end of year	<u>\$ 1,472,267</u>	<u>\$ 1,621,555</u>	<u>\$ 1,564,142</u>	<u>\$ (57,413)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 405,304	\$ 229,336
Accrued interest receivable.	1,189	-
	406,493	-
Total assets	406,493	\$ 229,336
Liabilities:		
Accounts payable.	-	\$ 39
Intergovernmental payable	-	79,812
Due to students	-	149,485
	-	149,524
Total liabilities	-	\$ 229,336
Net Assets:		
Held in trust for scholarships	406,493	
Total net assets	\$ 406,493	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 19,480
Gifts and contributions.	28,120
Total additions.	47,600
Deductions:	
Scholarships awarded	17,149
Change in net assets	30,451
Net assets at beginning of year.	376,042
Net assets at end of year	\$ 406,493

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District is the 73rd largest in the State of Ohio (among 876 public and community school districts) in terms of enrollment. It is staffed by 254 non-certificated employees and 362 certificated full-time teaching personnel, who provide services to 4,763 students and other community members. The Board controls the District's eight school buildings, a bus garage, a warehouse, and an administration building.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" 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, and student related activities of the District.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

PUBLIC ENTITY RISK POOLS

Shared Risk Pool

Stark County School Council of Governments Health Benefit Plan

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

Insurance Purchasing Pool

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

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

B. Fund Accounting - (Continued)

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

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

C. Basis of Presentation and Measurement Focus - (Continued)

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

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

D. Basis of Accounting

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

D. Basis of Accounting - (Continued)

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The 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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

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

Alternate Tax Budget:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

E. Budgets - (Continued)

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to 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 estimated 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 object level within each function for the general fund and at the fund level for all other funds, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the level of budgetary control must be approved by the Board of Education.

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation for that fund which 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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 2007, investments were limited to nonnegotiable certificates of deposit and overnight repurchase agreements. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$338,407, which includes \$191,475 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.

G. Inventory

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

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

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

H. Capital Assets

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

H. Capital Assets - (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District's capitalization threshold is \$5,000 for 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 capitalized.

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

Description	Governmental Activities Estimated Lives
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 30 years
Vehicles	8 years

I. Interfund Balances

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

J. Compensated Absences

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

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

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

**NORTH CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance Reserves

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The restriction for other purposes consist of monies restricted by State statute for set-asides and bus purchases (see Note 16).

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

N. Estimates

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

O. Restricted Assets

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

P. Interfund Activity

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

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

Q. Nonpublic Schools

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2007.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

	<u>Deficit</u>
General	\$ 3,118,775
<u>Nonmajor Governmental Funds</u>	
Adult Education	3,511
Auxiliary Services	10,010
Ohio Reads	67
Title VI	13
Drug Free School Grant	708
Preschool	121
Classroom Reduction	425

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Interim monies are 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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool the State Treasury Asset Reserve of Ohio (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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$335,335, exclusive of the \$4,560,000 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, 2007, \$386,668 of the District's bank balance of \$562,702 was exposed to custodial risk as discussed below, while \$176,034 was covered by the 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.

B. Investments

As of June 30, 2007, 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	\$ 4,560,000	\$ 4,560,000
Total	<u>\$ 4,560,000</u>	<u>\$ 4,560,000</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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the District's \$4,560,000 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 4,560,000	100.00

C. 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, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 335,335
Investments	<u>4,560,000</u>
Total	<u>\$ 4,895,335</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,260,695
Private-purpose trust funds	405,304
Agency funds	<u>229,336</u>
Total	<u>\$ 4,895,335</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2007 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor Governmental Funds	\$ 2,500

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. All interfund balances are expected to be repaid within one year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

- B.** Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from General fund to:	
Debt Service Fund	\$ 144,437

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

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

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

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 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, 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 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2007, on the value as of December 31, 2006. For 2006, tangible personal property is assessed at 18.75% for property including inventory. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - PROPERTY TAXES - (Continued)

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, 2007, are available to finance fiscal year 2007 operations. The amount available as an advance at June 30, 2007 was \$991,303 in the general fund and \$93,887 in the debt service fund. The amount that was available as advance at June 30, 2006 was \$826,070 in the general fund and \$93,130 in the debt service fund.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and ther real estate	\$ 602,549,950	91.90	\$ 666,769,020	93.40
Public utility personal	14,397,460	2.20	13,712,740	1.92
Tangible personal property	<u>38,678,699</u>	<u>5.90</u>	<u>33,398,050</u>	<u>4.68</u>
Total	<u>\$ 655,626,109</u>	<u>100.00</u>	<u>\$ 713,879,810</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuaition for:				
Operations		\$62.80		\$69.30
Debt Service		3.50		3.50

**NORTH CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 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

Taxes	\$ 21,809,807
Accounts	7,989
Intergovernmental	<u>153,930</u>
Total	<u>\$ 21,971,726</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 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	<u>Balance</u> <u>06/30/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/07</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,785,562	\$ -	\$ -	\$ 1,785,562
Construction in progress	<u>974,102</u>	<u>672,512</u>	<u>(1,646,614)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>2,759,664</u>	<u>672,512</u>	<u>(1,646,614)</u>	<u>1,785,562</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,418,673	11,325	-	2,429,998
Buildings and improvements	34,860,255	1,729,537	-	36,589,792
Furniture and equipment	2,210,027	129,648	(6,293)	2,333,382
Vehicles	<u>2,881,094</u>	<u>236,665</u>	<u>(369,741)</u>	<u>2,748,018</u>
Total capital assets, being depreciated	<u>42,370,049</u>	<u>2,107,175</u>	<u>(376,034)</u>	<u>44,101,190</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,530,156)	(82,510)	-	(1,612,666)
Buildings and improvements	(15,923,814)	(702,618)	-	(16,626,432)
Furniture and equipment	(1,803,197)	(86,766)	4,615	(1,885,348)
Vehicles	<u>(2,322,744)</u>	<u>(185,816)</u>	<u>369,741</u>	<u>(2,138,819)</u>
Total accumulated depreciation	<u>(21,579,911)</u>	<u>(1,057,710)</u>	<u>374,356</u>	<u>(22,263,265)</u>
Governmental activities capital assets, net	<u>\$ 23,549,802</u>	<u>\$ 1,721,977</u>	<u>\$ (1,648,292)</u>	<u>\$ 23,623,487</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS – (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 801,600
Special	1,702
Vocational	3,610
<u>Support Services:</u>	
Pupil	1,742
Instructional staff	4,531
Board of education	6,054
Administration	12,645
Operations and maintenance	15,033
Pupil Transportation	185,557
Central	814
Operation of noninstructional	359
Extracurricular activities	19,427
Food service operations	4,636
Total depreciation expense	<u>\$ 1,057,710</u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2007, the following changes occurred in governmental activities long-term obligations:

	<u>Issued</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Balance 06/30/06</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/07</u>	<u>Amount Due in One Year</u>
High school improvements	1994	2019	5.00%	\$ 17,530,559	\$ 549,915	\$ (1,150,000)	\$ 16,930,474	\$ 1,210,000
Energy conservation loan	2006	2021	3.96%	1,761,210	-	(76,210)	1,685,000	95,000
Compensated absences				2,443,412	305,697	(230,869)	2,518,240	244,933
Retirement incentive payable				140,000	302,500	(140,000)	302,500	122,500
Total governmental activities				<u>\$ 21,875,181</u>	<u>\$ 1,158,112</u>	<u>\$ (1,597,079)</u>	<u>\$ 21,436,214</u>	<u>\$ 1,672,433</u>

Compensated absences and the retirement incentive will be paid from the fund from which the employee is paid, primarily the general fund and food service fund (a nonmajor governmental fund).

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

**NORTH CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

On March 1, 1998, the District issued general obligation bonds to refund a portion of the 1994 Series issue. This issue is comprised of both current interest bonds, par value \$15,960,000, and capital appreciation bonds, par value \$714,795. The interest rates on the current interest bonds range from 4.25% to 5.00%. The capital appreciation bonds mature on December 1, 2007 (effective interest 18.00%), December 1, 2008 (effective interest 18.00%) and December 1, 2009 (effective interest 18.00%) and December 1, 2010 (effective interest 18.05%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$4,830,000. A total of \$2,775,679 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2007.

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

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

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

	Balance 6/30/06	Additions	Reductions	Balance 06/30/07
Current interest bonds -				
1994 Series	\$ 830,000	\$ -	\$ (830,000)	\$ -
Current interest bonds -				
1998 Series	13,760,000	-	(320,000)	13,440,000
Capital appreciation bonds -				
1998 Series	2,940,559	549,915	-	3,490,474
Total	\$ 17,530,559	\$ 549,915	\$ (1,150,000)	\$ 16,930,474

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

Fiscal Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ -	\$ 672,000	\$ 672,000	\$ 227,891	\$ 982,109	\$ 1,210,000
2009	-	672,000	672,000	191,024	1,013,976	1,205,000
2010	-	672,000	672,000	160,783	1,044,217	1,205,000
2011	-	672,000	672,000	135,097	1,074,903	1,210,000
2012	1,210,000	641,750	1,851,750	-	-	-
2013 - 2017	3,980,000	2,432,000	6,412,000	-	-	-
2018 - 2020	8,250,000	1,031,250	9,281,250	-	-	-
Total	\$ 13,440,000	\$ 6,793,000	\$ 20,233,000	\$ 714,795	\$ 4,115,205	\$ 4,830,000

- C. On September 21, 2005, the District issued an energy conservation loan for the purpose of upgrading buildings owned by the District to reduce energy consumption. The loan was issued at 3.96% for 15 years with semi-annual payments due in June and December. The loan will be retired from the debt service fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year Ending June 30	Current Interest Bonds		
	Principal	Interest	Total
2008	\$ 95,000	\$ 64,845	\$ 159,845
2009	95,000	61,083	156,083
2010	100,000	57,222	157,222
2011	105,000	53,163	158,163
2012	110,000	48,906	158,906
2013 - 2017	605,000	175,329	780,329
2018 - 2022	575,000	46,827	621,827
Total	<u>\$ 1,685,000</u>	<u>\$ 507,375</u>	<u>\$ 2,192,375</u>

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$47,935,327 (including available funds of \$1,340,684), an unvoted debt margin of \$674,994, and an energy conservation debt margin of \$4,389,944.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components is derived from negotiated agreements and state laws. Classified employees earn ten to thirty days of vacation per fiscal year, depending upon the length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 312 days for classified personnel and 316 for certificated personnel. Upon completion of ten or more years of service with the district, and retirement from the profession, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 64 days for both classified and certificated personnel. In addition, upon retirement, \$12 for both classified and certificated personnel is paid for each day of sick leave accumulated above 200 days. Upon completion of ten or more years of service with the state, or other political subdivision, but less than ten years of service with the district, and retirement from the profession, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 57 days for classified personnel, and up to a maximum of 62 days for certificated personnel. In addition, upon retirement, \$10 for classified personnel, and \$12 for certificated personnel, is paid for each day of sick leave accumulated above 200 days.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - OTHER EMPLOYEE BENEFITS – (Continued)

B. Retirement Incentive

The District provides a retirement incentive plan for State Teacher's Retirement System of Ohio (STRS Ohio) employees who become first time eligible for retirement or reach 30 years of service under STRS Ohio guidelines and retire effective at the end of the school year in which they qualify. Employees who enroll in the retirement incentive plan must submit written notification to the Superintendent on or before April 15 of the year of retirement. The one time cash payment of \$20,000 shall be made in January of the second calendar year following retirement. Fourteen employees took advantage of the early retirement incentive in fiscal year 2007. These one-time cash payments will be made in January 2008 or January 2009. A liability for the retirement incentive payments has been recorded on the fund financial statements for those amounts due in January 2008. The entire liability is recorded on the statement of net assets.

The District also provides a retirement incentive plan for the School Employees Retirement System of Ohio (SERS) employees who become first time eligible for retirement or reach 30 years of service under SERS guidelines and retire effective at the end of the school year in which they qualify. Employees who enroll in the retirement incentive plan must submit written notification to the Superintendent three months prior to the date of retirement. The incentive is a one-time cash payment of \$7,500, which will be made in January of the following year. Three employees took advantage of the \$7,500 retirement incentive in fiscal year 2007. These one-time cash payments will be made in January 2008. A liability for the retirement incentive payments has been recorded on the fund financial statements and the statement of net assets.

C. Insurance Benefits

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

**NORTH CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. During fiscal year 2007, the District has contracted with private companies for various types of insurance as follows:

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Deductible</u>
Buildings and Contents		
Replacement Cost	\$115,185,221	\$5,000
Inland Marine Coverage	various	500
Automobile Liability	1,000,000	0
Automobile Comprehensive	1,000,000	250
Automobile Collision	1,000,000	500
Uninsured Motorists	50,000	0
Employee Stop Gap Liability	1,000,000	0
School Leaders	1,000,000	5,000
Law Enforcement Professional Liability	1,000,000	2,500
Sexual Misconduct	1,000,000	0
Employee Benefits Liability	1,000,000	1,000
Umbrella Policy	10,000,000	10,000
General Liability:		
Per occurrence	1,000,000	0
Aggregate	2,000,000	0

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

B. Group Health and Dental Insurance

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

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

C. Workers' Compensation

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - RISK MANAGEMENT - (Continued)

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

NOTE 12 - 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 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. 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. 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 to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$575,862, \$535,452, and \$519,263, respectively; 46.38 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005. \$308,756 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

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, or by visiting the website at www.strsoh.org.

**NORTH CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - PENSION PLANS - (Continued)

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, 2007, 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. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. 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, 2007, 2006, and 2005 were \$2,582,686, \$2,492,709 and \$2,417,644, respectively; 82.94 percent has been contributed for fiscal year 2007 and 100 percent for the fiscal years 2006 and 2005. \$440,730 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2007 were \$17,758 made by the District and \$61,763 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 13 - POSTEMPLOYMENT BENEFITS – (Continued)

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$198,668 for fiscal year 2007.

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

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

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, the District paid \$240,935 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 the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**NORTH CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

- (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	\$ (926,584)
Net adjustment for revenue accruals	151,840
Net adjustment for expenditure accruals	(48,755)
Net adjustment for other sources/uses	(63,317)
Adjustment for encumbrances	<u>348,436</u>
GAAP basis	<u>\$ (538,380)</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 16 - STATUTORY RESERVES

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 16 - STATUTORY RESERVES – (Continued)

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2006	\$ 53,465	\$ -	\$ 140,717
Current year set-aside requirement	744,838	744,838	-
Qualifying disbursements	<u>(782,696)</u>	<u>(1,206,671)</u>	<u>(140,717)</u>
Total	<u>\$ 15,607</u>	<u>\$ (461,833)</u>	<u>\$ -</u>
Balance carried forward to FY 2008	<u>\$ 15,607</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

A schedule of the restricted assets at June 30, 2007 follows:

Amount restricted for bus purchase allowance	\$ 43,941
Amount restricted for instructional materials	<u>15,607</u>
Total restricted assets	<u>\$ 59,548</u>

NORTH CANTON CITY SCHOOL DISTRICT
STARK COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Food Distribution Program	N/A	10.550		\$ 66,383		\$ 66,383
Nutrition Cluster: National School Lunch Program	044503-LLP4-2007 044503-LLP4-2006	10.555	\$ 140,267 28,188		\$ 140,267 28,188	
Total National School Lunch Program			168,455		168,455	
Total U.S. Department of Agriculture			168,455	66,383	168,455	66,383
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster: Special Education Grants to States	044503-6BSF-2007 044503-6BSF-2006	84.027	957,892 86,531		867,326 165,747	
Special Education Preschool Grants	044503-PGS1-2007 044503-PGS1-2006	84.173	34,191 140		34,191 4,465	
Total Special Education Cluster			1,078,754		1,071,729	
Title I, Grants to Local Educational Agencies	044503-C1S1-2007 044503-C1S1-2006	84.010	155,156 19,576		142,548 36,559	
Total Title I, Grants to Local Educational Agencies			174,732		179,107	
Title II-A, Improving Teacher Quality State Grants	044503-TRS1-2007	84.367	124,778		124,778	
Title IV-A, Drug Free Schools Grant	044503-DRS1-2007 044503-DRS1-2006	84.186	15,384 3,923		14,207 4,978	
Total Title IV-A, Drug Free Schools Grant			19,307		19,185	
Title V, Innovative Educational Program Strategies	044503-C2S1-2007 044503-C2S1-2006	84.298	8,943 1,174		8,943 4,655	
Total Title V, Innovative Educational Program Strategies			10,117		13,598	
Title II-D, Education Technology State Grants	044503-TJS1-2007	84.318	4,391		4,509	
Hurricane Education Recovery Grant	044503-HR01-2006	84.938	2,000		2,000	
<i>Passed Through Plain Local School District - Fiscal Agent of Compact:</i>						
Vocational Education Basic Grants to States	CP-111-502-093	84.048	33,000		33,000	
Total U.S. Department of Education			1,447,079		1,447,906	
Totals			\$ 1,615,534	\$ 66,383	\$ 1,616,361	\$ 66,383

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

**NORTH CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION PROGRAM

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

NOTE C – CHILD NUTRITION CLUSTER

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



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Canton City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting: 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We also noted a certain internal control matter that we reported to the District's management in a separate letter dated January 11, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the District's management in a separate letter dated January 11, 2008.

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

We intend this report solely for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 11, 2008



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of North Canton City School District, Stark County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2007. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that the District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

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



Mary Taylor, CPA
Auditor of State

January 11, 2008

NORTH CANTON CITY SCHOOL DISTRICT
STARK COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2007-001

Significant Deficiency

Student Activities

The District has established Administrative Guidelines for Student Activity Funds which require all money collected from any source shall be substantiated by prenumbered student activity group receipts, cash registers supplying cumulative readings, prenumbered tickets or other auditable, checkable records. In addition, these guidelines state perpetual inventory should be maintained on prenumbered collection forms, receipts, tickets, etc.

During testing of the school store operated out of the High School, we noted the store director did not prepare or maintain school store inventory records. In addition, during testing of high school yearbook sales, we noted a reconciliation of yearbooks ordered versus yearbooks sold was not performed. As a result, errors or irregularities relative to school store items and yearbooks sold, monies collected and subsequently deposited may not be detected in a timely manner. The school store director should prepare and periodically update inventory records, including beginning inventory, items purchased, items sold, complimentary items given, ending inventory for all items offered for sale, and a reconciliation of items sold versus monies collected and subsequently deposited should be performed. In addition, for each yearbook sale throughout the District, reconciliations of yearbooks ordered versus yearbooks sold, complimentary yearbooks issued, monies collected and subsequently deposited should be performed. This will help ensure the propriety of monies collected and subsequently deposited.

Officials' Response: It has come to our attention that certain documentation was not sufficiently maintained for some of our student/fundraising activities. We will continue to stress the importance of properly maintaining any, and all, records for every student/fundraising activity to anyone who is involved. We recognize the significance of maintaining the financial integrity of each of these activities.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**NORTH CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Ohio Rev. Code Section 149.351 – During testing of certain student activity fundraisers, sufficient supporting documentation was not maintained.	No	Not Corrected – Refer to Finding Number 2007-001.



Mary Taylor, CPA
Auditor of State

NORTH CANTON CITY SCHOOL DISTRICT

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 6, 2008**