

Mary Taylor, CPA
Auditor of State

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Canton City School District
Stark County
1312 5th Street S.W.
Canton, Ohio 44707

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Canton City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Canton City School District, Stark County, Ohio, as of June 30, 2008, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 19, the District's discretely presented component units, the Canton City Schools Digital Academy, the Canton Arts Academy Community School, and the Canton Academy Community School ceased operations effective June 5, 2008 at which time all assets, liabilities, and net assets were transferred to the sponsor, Canton City School District.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2009, 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.

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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.

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

Mary Taylor, CPA
Auditor of State

April 21, 2009

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

The management's discussion and analysis of Canton City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2008 are as follows:

- In total, net assets increased \$8.585 million. Net assets of governmental activities increased \$9.203 million, which represents a 5.95% increase from 2007. Net assets of business-type activities decreased \$.618 million or 21.30% from 2007.
- General revenues for governmental activities, accounted for \$92.060 million in revenue or 70.49% of all revenues. The District had a special item in the amount of \$2,369. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$36.166 million or 27.69% of total governmental activities revenues of \$130.595 million.
- The District had \$121.392 million in expenses related to governmental activities; only \$36.166 million of these expenses were offset by program specific charges for services or grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$92.060 million were adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund, classroom facilities fund and permanent improvement fund. The general fund had \$95.660 million in revenues, other financing sources and a special item and \$88.982 million in expenditures and other financing uses. The general fund's fund balance increased \$6.770 million from a deficit of \$7.049 million to a deficit of \$.279 million.
- The debt service fund had \$4.719 million in revenues and other financing sources and \$3.470 million in expenditures and other financing uses. The debt service fund's fund balance increased \$1.249 million from \$9.699 million to \$10.948 million.
- The classroom facilities fund had \$1.098 million in revenues and \$11.423 million in expenditures and other financing uses. The classroom facilities fund's fund balance decreased \$10.325 million from \$15.222 million to \$4.897 million.
- The permanent improvement fund had \$8.171 million in revenues and other financing sources and \$1.376 million in expenditures and other financing uses. The permanent improvement fund's fund balance increased \$6.795 million from \$1.010 million to \$7.805 million.
- The District's two nonmajor enterprise funds are the food service fund and adult education fund. The food service fund had \$4.697 million in revenues and \$4.917 million in expenses. The food services fund net assets decreased \$.220 million from \$2.141 million to \$1.921 million.
- The District's other nonmajor enterprise fund is the adult education fund. The adult education fund had \$1.313 million in revenues and \$1.711 million in expenses. The adult education fund net assets decreased \$.398 million from \$.760 million to \$.362 million.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

Using the Basic Financial Statements (BFS)

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

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

Reporting the District as a Whole

Statement of net assets and the statement of activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?" 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 District is divided into two distinct kinds of activities:

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

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

The District's statement of net assets and statement of activities can be found on pages 15-17 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, debt service fund, classroom facilities fund and permanent improvement 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 statements provide a detailed *short-term* view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* are reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 18-23 of this report.

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole. The basic proprietary fund financial statements can be found on pages 24-27 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose-trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 28 and 29. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31-70 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

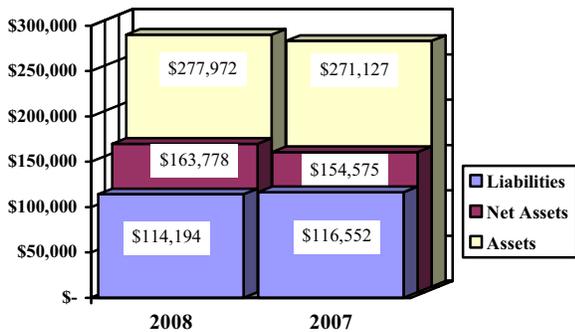
The District as a Whole

The statement of net assets provides the perspective of the District as a whole. Current and restricted assets at June 30, 2007 have been reclassified to conform to 2008 presentation. The table below provides a summary of the District's net assets for 2008 and 2007.

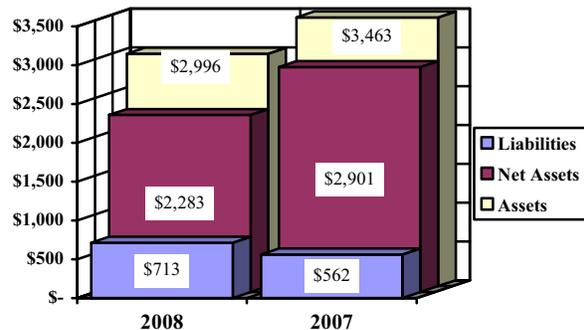
	Net Assets (Amounts in 000's)					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<u>Assets</u>						
Current assets	\$ 79,143	\$ 74,827	\$ 2,744	\$ 3,221	\$ 81,887	\$ 78,048
Restricted assets	9,901	7,926	-	-	9,901	7,926
Capital assets	188,928	188,374	252	242	189,180	188,616
Total assets	<u>277,972</u>	<u>271,127</u>	<u>2,996</u>	<u>3,463</u>	<u>280,968</u>	<u>274,590</u>
<u>Liabilities</u>						
Current liabilities	51,838	52,200	587	431	52,425	52,631
Long-term liabilities	62,356	64,352	126	131	62,482	64,483
Total liabilities	<u>114,194</u>	<u>116,552</u>	<u>713</u>	<u>562</u>	<u>114,907</u>	<u>117,114</u>
<u>Net Assets</u>						
Invested in capital assets, net of debt	144,490	152,669	252	242	144,742	152,911
Restricted	26,282	16,047	-	-	26,282	16,047
Unrestricted	(6,994)	(14,141)	2,031	2,659	(4,963)	(11,482)
Total net assets	<u>\$ 163,778</u>	<u>\$ 154,575</u>	<u>\$ 2,283</u>	<u>\$ 2,901</u>	<u>\$ 166,061</u>	<u>\$ 157,476</u>

Total net assets of the District increased by \$8.585 million, governmental activities net assets increased \$9.203 million and business-type activities net assets decreased \$.618 million. Total assets of the District's governmental activities increased \$6.845 million from June 30, 2007.

Governmental – Net Assets (Amounts in 000's)



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



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The table below shows the changes in net assets for fiscal year 2008 and 2007.

Revenues	Change in Net Assets (Amounts in 000's)					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2008	2007	2008	2007	2008	2007
Program revenues:						
Charges for services and sales	\$ 2,684	\$ 3,638	\$ 1,537	\$ 1,614	\$ 4,221	\$ 5,252
Operating grants and contributions	32,404	29,771	4,401	4,332	36,805	34,103
Capital grants and contributions	1,078	1,772	-	-	1,078	1,772
General revenues:						
Property taxes	31,947	32,683	-	-	31,947	32,683
Grants and entitlements	57,163	56,544	-	-	57,163	56,544
Investment earnings	2,182	2,258	72	100	2,254	2,358
Other	768	392	-	5	768	397
Total revenues	<u>128,226</u>	<u>127,058</u>	<u>6,010</u>	<u>6,051</u>	<u>134,236</u>	<u>133,109</u>
Expenses						
Program expenses:						
Instruction:						
Regular	42,844	46,022	-	-	42,844	46,022
Special	14,006	14,604	-	-	14,006	14,604
Vocational	1,677	1,764	-	-	1,677	1,764
Adult/continuing	714	633	-	-	714	633
Other	14,212	12,502	-	-	14,212	12,502
Support services:						
Pupil	6,926	8,852	-	-	6,926	8,852
Instructional staff	6,684	7,281	-	-	6,684	7,281
Board of Education	20	32	-	-	20	32
Administration	8,167	8,852	-	-	8,167	8,852
Fiscal	1,391	1,448	-	-	1,391	1,448
Business	603	639	-	-	603	639
Operations and maintenance	11,962	10,116	-	-	11,962	10,116
Pupil transportation	2,966	3,011	-	-	2,966	3,011
Central	3,678	3,777	-	-	3,678	3,777
Operation of non-instructional services	1,108	1,632	-	-	1,108	1,632
Extracurricular activities	2,258	2,641	-	-	2,258	2,641
Intergovernmental	328	397	-	-	328	397
Interest and fiscal charges	1,848	2,005	-	-	1,848	2,005
Food service	-	-	4,917	5,148	4,917	5,148
Adult education	-	-	1,711	1,605	1,711	1,605
Total expenses	<u>121,392</u>	<u>126,208</u>	<u>6,628</u>	<u>6,753</u>	<u>128,020</u>	<u>132,961</u>
Special Item						
Net assets to Canton City School District upon dissolution of component units	2,369	-	-	-	2,369	-
Changes in net assets	9,203	850	(618)	(702)	8,585	148
Net assets at beginning of year	154,575	153,725	2,901	3,603	157,476	157,328
Net assets at end of year	<u>\$ 163,778</u>	<u>\$ 154,575</u>	<u>\$ 2,283</u>	<u>\$ 2,901</u>	<u>\$ 166,061</u>	<u>\$ 157,476</u>

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

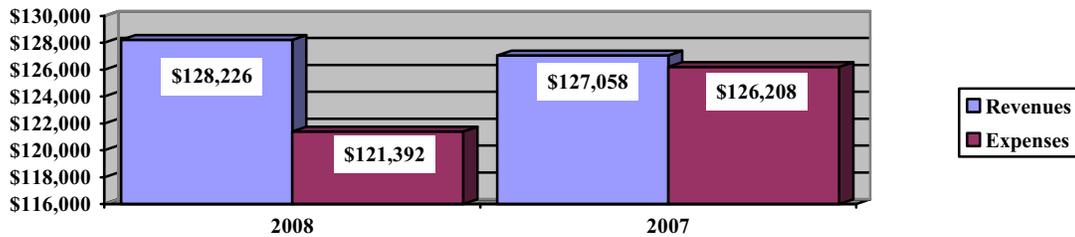
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

Governmental Activities

The net assets of the District's governmental activities increased \$9.203 million. Total governmental expenses of \$121.392 million were offset by program revenues of \$36.166 million and general revenues of \$92.060 million. The District reported a special item for the net assets transferred to the District upon dissolution of the District's three community school component units which increased net assets \$2.369 million. Program revenues supported 29.79% of the total governmental expenses. The increase in governmental activities net assets is primarily due to the reduction of expenses namely in the area of personnel costs. Regular instruction, support services – pupil and support services – instructional staff expenses all decreased as a result of wage and benefit decreases. The District has been forced to reduce the work force due to the failure of an 8.0 mill operating levy in May 2007 coupled with economic factors that have resulted in relatively flat revenues. Operations and maintenance expenses increased from 2007 due to increased repair and utility costs. The District experienced an increase in operating grants and contributions in 2008 due to increased funding from the State of Ohio related to special and vocational instruction.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 68.23% of total governmental revenue. Real estate property is reappraised every six years. The graph below presents the District's governmental activities revenue and expenses for fiscal years 2008 and 2007.

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



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2008 and 2007. It identifies the cost of services supported by tax revenue and restricted State grants and entitlements.

Governmental Activities (Amounts in 000's)

	Total Cost of Services <u>2008</u>	Net Cost of Services <u>2008</u>	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>
Program expenses				
Instruction:				
Regular	\$ 42,844	\$ 34,862	\$ 46,022	\$ 35,858
Special	14,006	2,630	14,604	6,012
Vocational	1,677	763	1,764	994
Adult/continuing	714	52	633	(2)
Other	14,212	10,779	12,502	10,446

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

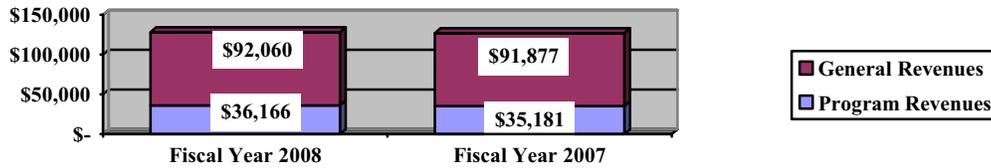
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

	Total Cost of Services <u>2008</u>	Net Cost of Services <u>2008</u>	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>
Support services:				
Pupil	6,926	5,884	8,852	6,505
Instructional staff	6,684	2,225	7,281	3,064
Board of Education	20	20	32	32
Administration	8,167	7,068	8,852	8,030
Fiscal	1,391	1,323	1,448	1,298
Business	603	603	639	639
Operations and maintenance	11,962	9,127	10,116	7,276
Pupil transportation	2,966	2,412	3,011	2,439
Central	3,678	3,331	3,777	3,366
Operation of non-instructional services	1,108	630	1,632	1,044
Extracurricular activities	2,258	1,763	2,641	2,029
Intergovernmental	328	(79)	397	(3)
Interest and fiscal charges	1,848	1,833	2,005	2,000
Total expenses	\$ 121,392	\$ 85,226	\$ 126,208	\$ 91,027

The dependence upon general revenues during fiscal year 2008 for governmental activities is apparent, as 66.83% of 2008 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 70.21% in 2008. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio, as a whole, are the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2008 and 2007.

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



Business-Type Activities

Business-type activities include adult education and the food service operation. These programs had revenues of \$6.010 million and expenses of \$6.628 million for fiscal year 2008. During fiscal year 2008, the District began evaluating measures to increase revenues and reduce expenses in these programs. The District's business-type activities receive no support from local or State tax revenues.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$27.669 million, which is above last year's total of \$21.225 million. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007 (amounts in 000's).

	Fund Balance (deficit) <u>June 30, 2008</u>	Fund Balance (deficit) <u>June 30, 2007</u>	Increase (Decrease)
General	\$ (279)	\$ (7,049)	\$ 6,770
Debt Service	10,948	9,699	1,249
Classroom Facilities	4,897	15,222	(10,325)
Permanent Improvement	7,805	1,010	6,795
Other Governmental	4,298	2,343	1,955
Total	<u>\$ 27,669</u>	<u>\$ 21,225</u>	<u>\$ 6,444</u>

General Fund

The District's general fund balance increased \$6.770 million. The table below assists in illustrating the financial activities and fund balance of the general fund (amounts in 000's).

	2008 <u>Amount</u>	2007 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 27,649	\$ 29,285	\$ (1,636)	(5.59) %
Interest earnings	855	977	(122)	(12.49) %
Intergovernmental	63,048	61,367	1,681	2.74 %
Other revenues	2,317	2,955	(638)	(21.59) %
Total	<u>\$ 93,869</u>	<u>\$ 94,584</u>	<u>\$ (715)</u>	(0.76) %
<u>Expenditures</u>				
Instruction	\$ 54,260	\$ 55,495	\$ (1,235)	(2.23) %
Support services	31,995	34,110	(2,115)	(6.20) %
Operation of non-instructional services	260	409	(149)	(36.43) %
Extracurricular activities	1,363	1,660	(297)	(17.89) %
Facilities acquisition and construction	69	219	(150)	(68.49) %
Debt Service	175	298	(123)	(41.28) %
Total	<u>\$ 88,122</u>	<u>\$ 92,191</u>	<u>\$ (4,069)</u>	(4.41) %

The decrease in tax revenue is due primarily to the phase-out of personal property tax in accordance with House Bill No. 66. This decrease in personal property tax is currently reimbursed by the State of Ohio. The reimbursement is recorded as intergovernmental revenue which explains the increase in that line item from the prior year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The decrease in investment income is due to the fluctuation in the fair market value of applicable investments coupled with adjustments recorded to accrue the interest earnings in the proper fiscal year. Actual cash basis interest revenue decreased approximately \$.429 million from fiscal year 2007 due to declining interest rates; however, the GAAP adjustments to record investments in U.S. treasury notes at their fair market value at June 30, 2008 resulted in investment earnings for 2008 being \$.122 less than 2007.

Intergovernmental revenue, primarily in the form of State Foundation, increased \$1.681 million from fiscal year 2007. Other revenues consist primarily of tuition, rental income and charges for services. Tuition revenue decreased approximately \$.793 over the prior year resulting in the overall decrease to the other revenues line item. Tuition revenue including approximately \$.024 million due from other school districts for fiscal year 2008 has been accrued as a receivable and revenue at June 30, 2008. All other revenue remained comparable to 2007.

Instruction expenditures decreased 2.23% and support services expenses decreased 6.20% from the prior year. These two areas are the District's largest expenditure line items. The decreases in these two areas are a direct result of the District's reduction in personnel costs. The District has implemented a retirement incentive program (RIP) and a health care reimbursement arrangement (HRA) to attract eligible employees to retire. As of June 30, 2008, 197 employees have retired under the RIP and HRA. The reduction of these employees' personnel costs have directly resulted in the decrease in instruction and certain support service expenditures.

Debt Service Fund

The District's debt service fund balance increased by \$1.249 million. The table below assists in illustrating the financial activities and fund balance of the debt service fund (amounts in 000's).

	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 2,467	\$ 2,658	\$ (191)	(7.19) %
Interest earnings	430	-	430	100.00 %
Intergovernmental	<u>342</u>	<u>318</u>	<u>24</u>	7.55 %
Total	<u>\$ 3,239</u>	<u>\$ 2,976</u>	<u>\$ 263</u>	8.84 %
<u>Expenditures</u>				
Support services	\$ 46	\$ -	\$ 46	100.00 %
Debt Service:				
Principal retirement	1,880	1,860	20	1.08 %
Interest and fiscal charges	<u>1,506</u>	<u>1,619</u>	<u>(113)</u>	(6.98) %
Total	<u>\$ 3,432</u>	<u>\$ 3,479</u>	<u>\$ (47)</u>	(1.35) %

The increase in fund balance resulted from (1) transfers in during 2008 from the general fund and permanent improvement fund for payment of principal and interest on long-term notes payable, (2) tax revenue generated by the fund being sufficient to cover required debt service and (3) the reporting the increase in the fair market value of U.S. treasury notes (QZAB sinking fund investments) as interest earnings.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

Classroom Facilities Fund

The District's classroom facilities fund balance decreased \$10.325 million.

The decrease in fund balance was due primarily to (1) a transfer out in the amount of \$7.175 million to the permanent improvement fund to reimburse that fund for expenditures incurred in prior years related to the District's construction projects financed through the Ohio School Facilities Commission (OSFC), and (2) due to construction expenditures incurred on the construction project through the OSFC incurred in fiscal year 2008.

Permanent Improvement Fund

The District's permanent improvement fund balance increased \$6.795 million.

The increase in fund balance was due primarily to a transfer in of \$7.175 million from the classroom facilities fund to reimburse the permanent improvement fund for expenditures incurred in prior years related to the District's construction projects financed through the OSFC.

General Fund Budgeting Highlights

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

During the course of fiscal year 2008, the District amended its general fund budget numerous times. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. For the general fund, final budgeted revenues and other financing sources were \$99.608 million, the same as original budget estimates of \$99.608 million. The actual revenues and other financing sources were \$101.505 million, which was \$1.897 million higher than the final budget revenues. The primary variances between the final budgeted revenues and actual revenues were in the area of taxes and intergovernmental-state revenues. These two revenue sources came in \$1.735 million higher than in the final budgeted amounts. General fund original appropriations and other financing uses of \$100.621 million were increased to \$101.925 million in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2008 totaled \$100.447 million, which was \$1.478 million less than final budgeted appropriations, primarily due to a decrease in instruction related expenditures of \$815,000. Actual instruction related expenditures were \$55.309 million while the final budgeted instruction expenditures were \$56.124 million. During 2008, the general fund had transfers out and transfers in of \$3.327 million and \$2.436 million, respectively, and advances out and advances in of \$5.261 million and \$4.317 million, respectively. On a GAAP basis, advances outstanding at year-end are recorded as receivables and payables in the respective funds.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008, the District had \$189.180 million invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress (CIP). Of this total, \$188.928 million was reported in governmental activities and \$.252 million was reported in business-type activities.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

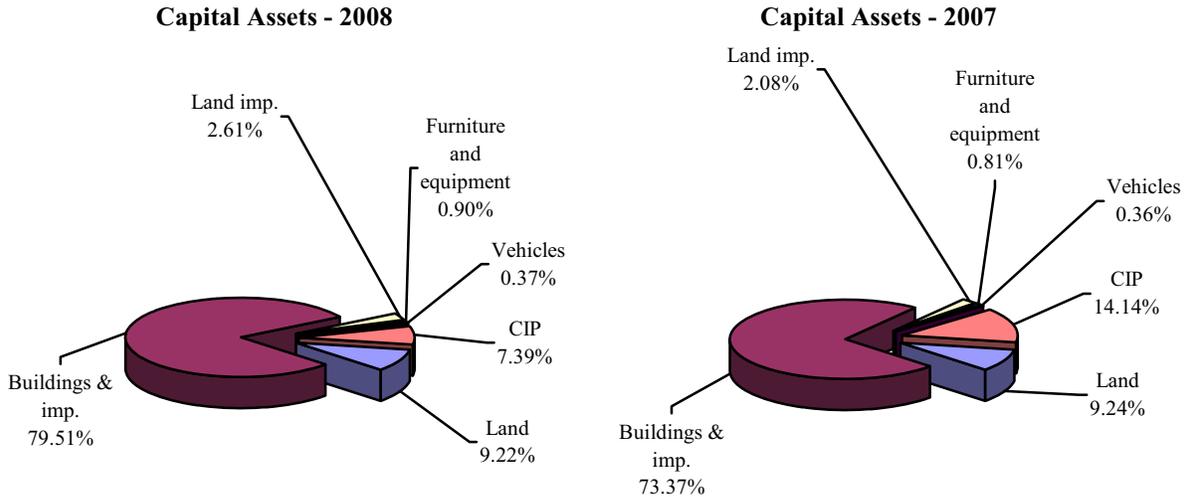
The following table shows fiscal year 2008 balances compared to 2007:

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

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 17,413	\$ 17,412	\$ -	\$ -	\$ 17,413	\$ 17,412
Land improvements	4,927	3,927	-	-	4,927	3,927
Buildings and improvements	150,214	138,189	-	-	150,214	138,189
Furniture and equipment	1,702	1,525	252	242	1,954	1,767
Vehicles	707	676	-	-	707	676
Construction in progress	13,965	26,645	-	-	13,965	26,645
Total	\$ 188,928	\$ 188,374	\$ 252	\$ 242	\$ 189,180	\$ 188,616

Total additions to governmental activities capital assets for 2008 were \$4.631 million. Governmental activities depreciation expense for fiscal year 2008 was \$4.604 million. Capital assets net of accumulated depreciation, in the amount of \$.527 million were transferred to the District from the District's component units upon their dissolution (see Note 19 to the financial statements). Overall, governmental activities capital assets of the District increased \$.554 million.

The following graphs show the breakdown of the governmental activities capital assets by category for 2008 and 2007.



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

Debt Administration

At June 30, 2008 the District had \$50.523 million in general obligation bonds, notes and capital lease obligations outstanding. Of this total, \$1.979 million is due within one year and \$48.544 million is due within greater than one year.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)

The following table summarizes the governmental activities bonds, notes and leases outstanding.

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

	Balance <u>June 30, 2008</u>	Balance <u>June 30, 2007</u>
General obligation bonds	\$ 45,061	\$ 45,361
Notes payable	4,740	6,020
Capital lease obligation	<u>722</u>	<u>951</u>
Total	<u>\$ 50,523</u>	<u>\$ 52,332</u>

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

Current Financial Related Activities

Declining enrollment continues to be the District's number one problem. Canton City Schools continues to lose approximately 200 students annually. The main reasons for this appear to be students switching to charter schools and people moving out of the District. This is the ninth straight year that enrollment has declined. The total number of students lost in those nine years is approximately 2,650. Community schools have dramatically impacted many school districts in Ohio. During fiscal year 2008, the District estimates that \$8 million in state funding revenue was lost to community schools. The District receives approximately \$5,500 per pupil in the current State funding formula.

The number two problem is that the State of Ohio continues to fund schools well below historical levels. The state's financial problems have had a very negative effect on school districts throughout Ohio. Unless the unconstitutional state funding system is fixed, the District will be forced to continue with budget cuts and layoffs as they have for the past four years (fiscal years 2004, 2005, 2006 and 2007). Budget cuts have been reflected in the fiscal year 2008 budget. The District has cut 239 employees from its payroll since 2003.

The District did pass a 7.9 mill operating levy on March 2, 2004. This levy increased revenues by \$6.8 million per year beginning January 1, 2005. However, due to the District's cash flow situation the District borrowed \$3.4 million in June of 2004 in anticipation of these future collections. The note will be repaid over a five year period. The District placed an 8.0 mill continuing operating levy on the ballot in May 2007. This ballot was rejected by the voters. Had the voters approved the levy, it would have generated approximately \$6.5 million annually for the District's general operating expenses. Since the levy did not pass, the District is forced to continue with budget cuts in efforts to avoid being declared in Fiscal Watch by the Ohio Department of Education.

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

Contacting the District's Financial Management

This financial report is designed to provide our 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 the Treasurer of the Canton City School District at 1312 5th Street SW, Canton, Ohio 44707-4798.

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2008
(AMOUNTS IN 000's)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 33,440	\$ 2,191	\$ 35,631
Cash in segregated accounts	1,808	-	1,808
Receivables:			
Taxes	40,385	-	40,385
Accounts	30	1	31
Intergovernmental	2,627	480	3,107
Accrued interest	200	-	200
Prepayments	63	-	63
Unamortized bond and note issue costs	362	-	362
Materials and supplies inventory	228	72	300
Restricted assets:			
Equity in pooled cash and investments	9,901	-	9,901
Capital assets:			
Land and construction in progress	31,378	-	31,378
Depreciable capital assets, net	157,550	252	157,802
Total capital assets, net	188,928	252	189,180
Total assets	277,972	2,996	280,968
Liabilities:			
Accounts payable	1,265	13	1,278
Contracts payable	566	-	566
Retainage payable	271	-	271
Accrued wages and benefits	12,264	255	12,519
Pension obligation payable	2,513	233	2,746
Intergovernmental payable	1,140	7	1,147
Unearned revenue	32,940	79	33,019
Accrued interest payable	146	-	146
Claims payable	733	-	733
Long-term liabilities:			
Due within one year	3,959	32	3,991
Due within more than one year	58,397	94	58,491
Total liabilities	114,194	713	114,907
Net Assets:			
Invested in capital assets, net of related debt	144,490	252	144,742
Restricted for:			
Capital projects	8,524	-	8,524
Debt service	11,255	-	11,255
Classroom facilities maintenance	2,310	-	2,310
Locally funded programs	1,017	-	1,017
State funded programs	199	-	199
Federally funded programs	1,747	-	1,747
Other purposes	1,230	-	1,230
Unrestricted (deficit)	(6,994)	2,031	(4,963)
Total net assets	\$ 163,778	\$ 2,283	\$ 166,061

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(AMOUNTS IN 000's)

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instruction:				
Regular	\$ 42,844	\$ 399	\$ 7,583	\$ -
Special	14,006	354	11,022	-
Vocational	1,677	29	885	-
Adult/continuing	714	-	662	-
Other	14,212	28	3,405	-
Support services:				
Pupil.	6,926	231	811	-
Instructional staff	6,684	17	4,442	-
Board of education	20	-	-	-
Administration.	8,167	49	1,050	-
Fiscal.	1,391	-	68	-
Business.	603	-	-	-
Operations and maintenance	11,962	779	1,063	993
Pupil transportation.	2,966	72	438	44
Central	3,678	65	244	38
Operation of non-instructional services	1,108	173	302	3
Extracurricular activities.	2,258	480	15	-
Intergovernmental	328	-	407	-
Interest and fiscal charges	1,848	8	7	-
Total governmental activities	121,392	2,684	32,404	1,078
Business-type activities:				
Food service.	4,917	626	4,011	-
Adult education.	1,711	911	390	-
Total business-type activities	6,628	1,537	4,401	-
Totals	\$ 128,020	\$ 4,221	\$ 36,805	\$ 1,078
Component Units:				
Canton City Schools Digital Academy	\$ 814	-	\$ 1,382	\$ -
Canton Academy Community School	466	-	556	-
Canton Arts Academy Community School.	1,176	11	998	-
Totals	\$ 2,456	\$ 11	\$ 2,936	\$ -

General Revenues:

Property taxes levied for:
General purposes
Debt service.
Capital outlay.
Facilities maintenance.
Grants and entitlements not restricted to specific programs
Investment earnings
Miscellaneous
Total general revenues

Special item:

Net assets to Canton City School District upon dissolution of component units
Change in net assets
Net assets at beginning of year
Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

Primary Government			Component Units		
			(For the Period July 1, 2007 through June 5, 2008)		
Governmental Activities	Business-Type Activities	Total	Canton City Schools Digital Academy	Canton Academy Community School	Canton Arts Academy Community School
\$ (34,862)	\$ -	\$ (34,862)	\$ -	\$ -	\$ -
(2,630)	-	(2,630)	-	-	-
(763)	-	(763)	-	-	-
(52)	-	(52)	-	-	-
(10,779)	-	(10,779)	-	-	-
(5,884)	-	(5,884)	-	-	-
(2,225)	-	(2,225)	-	-	-
(20)	-	(20)	-	-	-
(7,068)	-	(7,068)	-	-	-
(1,323)	-	(1,323)	-	-	-
(603)	-	(603)	-	-	-
(9,127)	-	(9,127)	-	-	-
(2,412)	-	(2,412)	-	-	-
(3,331)	-	(3,331)	-	-	-
(630)	-	(630)	-	-	-
(1,763)	-	(1,763)	-	-	-
79	-	79	-	-	-
(1,833)	-	(1,833)	-	-	-
(85,226)	-	(85,226)	-	-	-
-	(280)	(280)	-	-	-
-	(410)	(410)	-	-	-
-	(690)	(690)	-	-	-
(85,226)	(690)	(85,916)	-	-	-
-	-	-	568	-	-
-	-	-	-	90	-
-	-	-	-	-	(167)
-	-	-	568	90	(167)
28,147	-	28,147	-	-	-
2,521	-	2,521	-	-	-
855	-	855	-	-	-
424	-	424	-	-	-
57,163	-	57,163	128	58	217
2,182	72	2,254	4	1	2
768	-	768	1	-	1
92,060	72	92,132	133	59	220
2,369	-	2,369	(1,634)	(360)	(375)
9,203	(618)	8,585	(933)	(211)	(322)
154,575	2,901	157,476	933	211	322
\$ 163,778	\$ 2,283	\$ 166,061	\$ -	\$ -	\$ -

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008
(AMOUNTS IN 000's)

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:						
Equity in pooled cash and investments	\$ 7,061	\$ 1,726	\$ 5,339	\$ 7,922	\$ 9,235	\$ 31,283
Cash in segregated accounts	1,537	-	271	-	-	1,808
Receivables:						
Taxes	35,829	3,134	-	998	424	40,385
Accounts	27	-	-	-	3	30
Intergovernmental	511	-	-	-	2,116	2,627
Accrued interest	155	-	45	-	-	200
Interfund loans	1,564	371	-	-	-	1,935
Prepayments	56	-	7	-	-	63
Materials and supplies inventory	228	-	-	-	-	228
Restricted assets:						
Equity in pooled cash and cash equivalents	1,230	8,671	-	-	-	9,901
Total assets	<u>\$ 48,198</u>	<u>\$ 13,902</u>	<u>\$ 5,662</u>	<u>\$ 8,920</u>	<u>\$ 11,778</u>	<u>\$ 88,460</u>
Liabilities:						
Accounts payable	\$ 944	\$ -	\$ -	\$ -	\$ 295	\$ 1,239
Contracts payable	3	-	449	-	114	566
Retainage payable	-	-	271	-	-	271
Accrued wages and benefits	9,241	-	-	-	3,022	12,263
Compensated absences payable	612	-	-	-	91	703
Pension obligation payable	1,705	-	-	-	808	2,513
Intergovernmental payable	387	-	-	183	172	742
Interfund loan payable	134	-	-	-	1,801	1,935
Health care reimbursement arrangement payable	1,051	-	-	-	-	1,051
Deferred revenue	5,107	452	45	213	750	6,567
Unearned revenue	29,293	2,502	-	719	427	32,941
Total liabilities	<u>48,477</u>	<u>2,954</u>	<u>765</u>	<u>1,115</u>	<u>7,480</u>	<u>60,791</u>
Fund Balances:						
Reserved for encumbrances	2,137	-	1,417	6,934	547	11,035
Reserved for textbooks	1,186	-	-	-	-	1,186
Reserved for materials and supplies inventory	228	-	-	-	-	228
Reserved for debt service	-	10,767	-	-	-	10,767
Reserved for property tax unavailable for appropriation	1,526	181	-	66	-	1,773
Reserved for prepayments	56	-	7	-	-	63
Reserved for school bus purchases	44	-	-	-	-	44
Unreserved, undesignated (deficit), reported in:						
General fund	(5,456)	-	-	-	-	(5,456)
Special revenue funds	-	-	-	-	2,927	2,927
Capital projects funds	-	-	3,473	805	824	5,102
Total fund balances	<u>(279)</u>	<u>10,948</u>	<u>4,897</u>	<u>7,805</u>	<u>4,298</u>	<u>27,669</u>
Total liabilities and fund balances	<u>\$ 48,198</u>	<u>\$ 13,902</u>	<u>\$ 5,662</u>	<u>\$ 8,920</u>	<u>\$ 11,778</u>	<u>\$ 88,460</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2008
(AMOUNTS IN 000's)

Total governmental fund balances		\$	27,669
<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.			188,928
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	5,676	
Accrued interest receivable		141	
Intergovernmental revenue receivable		750	
		750	
Total			6,567
Unamortized deferred charges on refundings are not recognized in the funds.			1,911
Unamortized premiums on bond and note issuances are not recognized in the funds.			(2,274)
Unamortized bond and note issuance costs are not recognized in the funds.			362
Internal service funds are used by management to charge the costs of workers' compensation and warehouse services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities on the statement of net assets.			1,000
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(146)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(45,061)	
Compensated absences		(4,011)	
Capital lease obligations		(722)	
Health care reimbursement arrangement payable		(5,705)	
Notes payable		(4,740)	
		(4,740)	
Total			(60,239)
Net assets of governmental activities		\$	163,778

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(AMOUNTS IN 000's)

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
From local sources:						
Taxes	\$ 27,649	\$ 2,467	\$ -	\$ 833	\$ 424	\$ 31,373
Tuition	519	-	-	-	3	522
Earnings on investments	855	430	564	111	36	1,996
Extracurricular	39	-	-	-	805	844
Classroom materials and fees	30	-	-	-	-	30
Rental income	804	-	-	-	9	813
Contributions and donations	-	-	-	-	165	165
Charges for services	157	-	-	-	231	388
Other local revenues	768	-	-	-	98	866
Intergovernmental - Intermediate sources	42	-	-	-	1,610	1,652
Intergovernmental - State	62,985	342	534	52	13,907	77,820
Intergovernmental - Federal	21	-	-	-	11,504	11,525
Total revenue	<u>93,869</u>	<u>3,239</u>	<u>1,098</u>	<u>996</u>	<u>28,792</u>	<u>127,994</u>
Expenditures:						
Current:						
Instruction:						
Regular	33,832	-	-	-	7,495	41,327
Special	7,835	-	-	-	5,423	13,258
Vocational	1,691	-	-	-	4	1,695
Adult/continuing	-	-	-	-	710	710
Other	10,902	-	-	-	3,280	14,182
Support Services:						
Pupil	5,699	-	-	-	1,062	6,761
Instructional staff	2,079	-	-	-	4,372	6,451
Board of education	20	-	-	-	-	20
Administration	6,831	-	-	-	1,023	7,854
Fiscal	1,261	46	-	-	72	1,379
Business	611	-	-	-	-	611
Operations and maintenance	9,572	-	-	338	656	10,566
Pupil transportation	2,738	-	-	-	115	2,853
Central	3,184	-	-	-	488	3,672
Operation of non-instructional services	260	-	-	-	408	668
Extracurricular activities	1,363	-	-	-	624	1,987
Facilities acquisition and construction	69	-	4,248	239	843	5,399
Intergovernmental pass through	-	-	-	-	328	328
Debt service:						
Principal retirement	163	1,880	-	28	38	2,109
Interest and fiscal charges	12	1,506	-	25	22	1,565
Total expenditures	<u>88,122</u>	<u>3,432</u>	<u>4,248</u>	<u>630</u>	<u>26,963</u>	<u>123,395</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,747</u>	<u>(193)</u>	<u>(3,150)</u>	<u>366</u>	<u>1,829</u>	<u>4,599</u>

--continued

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(AMOUNTS IN 000's)

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses):						
Transfers in	38	1,480	-	7,175	143	8,836
Transfers (out).	<u>(860)</u>	<u>(38)</u>	<u>(7,175)</u>	<u>(746)</u>	<u>(17)</u>	<u>(8,836)</u>
Total other financing sources (uses)	<u>(822)</u>	<u>1,442</u>	<u>(7,175)</u>	<u>6,429</u>	<u>126</u>	<u>-</u>
Special item:						
Net assets to Canton City School District upon dissolution of component units	<u>1,753</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,753</u>
Net change in fund balances	6,678	1,249	(10,325)	6,795	1,955	6,352
Fund balances (deficit)						
at beginning of year	(7,049)	9,699	15,222	1,010	2,343	21,225
Increase in reserve for inventory.	<u>92</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>92</u>
Fund balances (deficit)						
at end of year	<u>\$ (279)</u>	<u>\$ 10,948</u>	<u>\$ 4,897</u>	<u>\$ 7,805</u>	<u>\$ 4,298</u>	<u>\$ 27,669</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(AMOUNTS IN 000's)

Net change in fund balances - total governmental funds	\$	6,352
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.		
Capital asset additions	\$ 4,631	
Current year depreciation	(4,604)	
Total		27
Capital assets, net of accumulated depreciation, have been transferred to the Canton City School District upon dissolution of component units.		
		527
Governmental funds report expenditures for inventory when purchased, however, in the statement of activities, they are reported as expenditures when consumed.		
		92
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	574	
Interest	114	
Intergovernmental	(534)	
Classroom materials and fees	(11)	
Total		143
Repayment of long-term principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. The following principal payments were made in the fiscal year:		
Bonds and notes	1,880	
Capital lease obligations	229	
Total		2,109
In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in increased interest being reported on the statement of activities:		
Decrease in accrued interest payable	16	
Accreted interest on "capital appreciation" bonds	(300)	
Amortization of bond and note issuance costs	(30)	
Amortization on bond and note premiums	155	
Amortization of deferred charge on refunding	(124)	
Total		(283)
Some expenses reported in the statement of activities, such as the long-term portion of compensated absences and the health reimbursement arrangement payable do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		805
The internal service funds used by management to charge the costs of workers' compensation and warehouse services to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net expenses of the internal service funds are allocated among the governmental activities.		
		(569)
Change in net assets of governmental activities	\$	9,203

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(AMOUNTS IN 000's)

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes.	\$ 26,855	\$ 26,855	\$ 27,267	\$ 412
Tuition.	1,107	1,107	1,124	17
Earnings on investments.	829	829	842	13
Extracurricular.	45	45	39	(6)
Classroom materials and fees.	18	18	20	2
Rental income.	792	792	806	14
Charges for services.	482	482	489	7
Other local revenues.	515	515	523	8
Intergovernmental - Intermediate sources.	41	41	42	1
Intergovernmental - State	62,031	62,031	63,354	1,323
Total revenue	<u>92,715</u>	<u>92,715</u>	<u>94,506</u>	<u>1,791</u>
Expenditures:				
Current:				
Instruction:				
Regular	34,307	34,755	34,254	501
Special.	8,087	8,192	8,075	117
Vocational.	1,911	1,935	1,899	36
Other.	11,098	11,242	11,081	161
Support Services:				
Pupil.	5,638	5,711	5,629	82
Instructional staff	2,311	2,341	2,308	33
Board of education	20	20	20	-
Administration.	7,099	7,190	7,085	105
Fiscal	1,290	1,306	1,288	18
Business	631	639	630	9
Operations and maintenance.	10,712	10,851	10,696	155
Pupil transportation	2,834	2,871	2,830	41
Central.	3,646	3,693	3,640	53
Operation of non-instructional services	292	295	288	7
Extracurricular activities.	1,362	1,379	1,360	19
Facilities acquisition and construction.	101	102	101	1
Total expenditures	<u>91,339</u>	<u>92,522</u>	<u>91,184</u>	<u>1,338</u>
Excess of revenues over (under) expenditures.	<u>1,376</u>	<u>193</u>	<u>3,322</u>	<u>3,129</u>
Other financing sources (uses):				
Refund of prior year expenditure.	241	241	246	5
Refund of prior year receipt	(674)	(683)	(673)	10
Advances in.	4,252	4,252	4,317	65
Advances (out)	(5,274)	(5,343)	(5,261)	82
Transfers in	2,400	2,400	2,436	36
Transfers (out)	(3,332)	(3,375)	(3,327)	48
Contingency.	(2)	(2)	(2)	-
Total other financing sources (uses)	<u>(2,389)</u>	<u>(2,510)</u>	<u>(2,264)</u>	<u>246</u>
Net change in fund balance	(1,013)	(2,317)	1,058	3,375
Fund balance at beginning of year	2,491	2,491	2,491	-
Prior year encumbrances appropriated	1,836	1,836	1,836	-
Fund balance at end of year.	<u>\$ 3,314</u>	<u>\$ 2,010</u>	<u>\$ 5,385</u>	<u>\$ 3,375</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008
(AMOUNTS IN 000's)

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
	<u> </u>	<u> </u>
Assets:		
Current assets:		
Equity in pooled cash and investments.	\$ 2,191	\$ 2,156
Receivables:		
Accounts	1	-
Intergovernmental	480	-
Materials and supplies inventory	72	-
	<u>2,744</u>	<u>2,156</u>
Total current assets		
	<u>2,744</u>	<u>2,156</u>
Noncurrent assets:		
Depreciable capital assets, net	252	-
	<u>252</u>	<u>-</u>
Total assets		
	<u>2,996</u>	<u>2,156</u>
Liabilities:		
Accounts payable.	13	24
Accrued wages and benefits	255	1
Compensated absences.	32	-
Pension obligation payable.	233	1
Intergovernmental payable	7	397
Unearned revenue	79	-
Claims payable	-	733
	<u>619</u>	<u>1,156</u>
Total current liabilities		
	<u>619</u>	<u>1,156</u>
Long-term liabilities:		
Compensated absences payable.	94	-
	<u>94</u>	<u>-</u>
Total long-term liabilities		
	<u>94</u>	<u>-</u>
Total liabilities		
	<u>713</u>	<u>1,156</u>
Net assets:		
Invested in capital assets	252	-
Unrestricted.	2,031	1,000
	<u>2,283</u>	<u>1,000</u>
Total net assets		
	<u>\$ 2,283</u>	<u>\$ 1,000</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(AMOUNTS IN 000's)

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
Operating revenues:		
Tuition and fees.	\$ 911	\$ 109
Sales/charges for services.	626	213
	<hr/>	<hr/>
Total operating revenues	1,537	322
	<hr/>	<hr/>
Operating expenses:		
Personal services.	3,241	57
Purchased services.	894	147
Materials and supplies	2,352	115
Depreciation	32	-
Claims	-	660
Other.	109	-
	<hr/>	<hr/>
Total operating expenses.	6,628	979
	<hr/>	<hr/>
Operating income (loss)	(5,091)	(657)
	<hr/>	<hr/>
Nonoperating revenues:		
Federal donated commodities	297	-
Interest revenue	72	88
Grants and subsidies.	4,104	-
	<hr/>	<hr/>
Total nonoperating revenues	4,473	88
	<hr/>	<hr/>
Change in net assets.	(618)	(569)
	<hr/>	<hr/>
Net assets at beginning of year	2,901	1,569
	<hr/>	<hr/>
Net assets at end of year.	\$ 2,283	\$ 1,000
	<hr/> <hr/>	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(AMOUNTS IN 000's)

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
Cash flows from operating activities:		
Cash received from tuition and fees	\$ 990	\$ 109
Cash received from sales/charges for services.	627	213
Cash payments for personal services.	(3,162)	(59)
Cash payments for contractual services	(899)	(147)
Cash payments for materials and supplies	(2,077)	(93)
Cash payments for claims	-	(392)
Cash payments for other expenses	(109)	-
	<u>(4,630)</u>	<u>(369)</u>
Net cash provided by (used in)		
operating activities	<u>(4,630)</u>	<u>(369)</u>
Cash flows from noncapital financing activities:		
Cash received from grants and subsidies.	<u>4,142</u>	<u>-</u>
	<u>4,142</u>	<u>-</u>
Net cash provided by noncapital		
financing activities.	<u>4,142</u>	<u>-</u>
Cash flows from capital and related		
financing activities:		
Acquisition of capital assets	<u>(42)</u>	<u>-</u>
	<u>(42)</u>	<u>-</u>
Net cash used in capital and related		
financing activities.	<u>(42)</u>	<u>-</u>
Cash flows from investing activities:		
Interest received	<u>72</u>	<u>88</u>
	<u>72</u>	<u>88</u>
Net cash provided by investing activities		
	<u>72</u>	<u>88</u>
Net decrease in cash and cash equivalents	(458)	(281)
Cash and cash equivalents at beginning of year . . .	<u>2,649</u>	<u>2,437</u>
Cash and cash equivalents at end of year	<u>\$ 2,191</u>	<u>\$ 2,156</u>

(Continued)

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(AMOUNTS IN 000's)

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
	Funds	Funds
Reconciliation of operating loss to net cash (used in) operating activities:		
Operating loss	\$ (5,091)	\$ (657)
Adjustments:		
Depreciation.	32	-
Federal donated commodities	297	-
Changes in assets and liabilities:		
(Increase) in materials and supplies inventory	(20)	-
Increase (decrease) in accounts payable	(9)	21
Increase (decrease) in accrued wages and benefits	54	(3)
Increase (decrease) in intergovernmental payable	(11)	397
(Decrease) in compensated absences payable	(5)	-
Increase in pension obligation payable	44	1
Increase in unearned revenue.	79	-
(Decrease) in claims payable	-	(128)
	\$ (4,630)	\$ (369)
Net cash (used in) operating activities		

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2008
 (AMOUNTS IN 000's)

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$ 104	\$ 221
Receivables:		
Accounts	-	4
	104	225
Total assets	104	225
Liabilities:		
Due to students	-	\$ 225
Total liabilities	-	225
Net Assets:		
Held in trust for scholarships.	104	
Total net assets.	\$ 104	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008
 (AMOUNTS IN 000's)

	Private-Purpose Trust	
	Scholarship	
Additions:		
Interest	\$	4
Gifts and contributions.		27
Total additions.		31
Deductions:		
Scholarships awarded		30
Change in net assets		1
Net assets at beginning of year.		103
Net assets at end of year	\$	104

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District ranks as the 14th largest by enrollment among the 896 public school districts and community schools in the State of Ohio. The District employs 638 non-certified and 920 certified employees to provide services to approximately 11,224 students and community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". When applying GASB Statement No. 14, management has considered all potential component units. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the debt, the issuance of debt, or the levying of taxes. Based upon the application of these criteria, the District has three component units. The financial statements of the reporting entity include those of the District (the primary government) and the three component units. In addition, the District is involved in the following educational agreement:

Comprehensive Collaborative Agreement ("CCA")

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

COMPONENT UNITS

The Canton City Schools Digital Academy

The Canton City Schools Digital Academy (the “Digital Academy”) was a legally separate, conversion community school, served by a Board of Directors. The Digital Academy provided students within the District with curriculum and instruction via distance learning technology. The Board of Directors consisted of the District’s Assistant to the Superintendent-Elementary Instruction, the District’s Director of Special Education, the District’s Director of Instructional Technology and Assessment and two additional Board members appointed by the District. The Canton City School District was the sponsoring School District of the Digital Academy under Ohio Law Section 3314. The Superintendent of the District served as the Chief Administrative Officer of the Digital Academy and the Treasurer served as the Chief Financial Officer. Based on the significant services provided by the District to the Digital Academy, the Academy’s purpose of servicing the students within the District, and the relationship between the Board of Education of the District and the Board of Directors of the Digital Academy, the Digital Academy was reflected as a component unit of the District. Effective June 5, 2008, the Digital Academy ceased operations and transferred all assets and liabilities to the Canton City School District (see Note 19). Separately issued financial statements for the Digital Academy can be obtained from the Treasurer of the Canton City School District at 1312 5th Street SW, Canton, Ohio 44707-4798.

The Canton Academy Community School

The Canton Academy Community School (the “Academy”) was a legally separate, conversion community school, served by a Board of Directors. The Academy was designed to meet the academic and mental health needs of high school students, grades 9 through 12, and ages 14 through 22, who are unsuccessful in the traditional educational setting. Typically, they are identified as students with special needs or are “at highest risk” for academic failure. The Board of Directors consisted of one member from each of the following organizations: Stark County Community Mental Health Board, Stark County Family Council, City of Canton, Stark County Department of Jobs and Family Services and Canton City Schools. The Canton City School District was the sponsoring School District of the Academy under Ohio Law Section 3314. The Superintendent of the District served as the Chief Administrative Officer of the Academy and the Treasurer served as the Chief Financial Officer. Based on the significant services provided by the District to the Academy, the Academy’s purpose of servicing the students within the District, and the relationship between the Board of Education of the District and the Board of Directors of the Academy, the Academy was reflected as a component unit of the District. Effective June 5, 2008, the Academy ceased operations and transferred all assets and liabilities to the Canton City School District (see Note 19). Separately issued financial statements for the Academy can be obtained from the Treasurer of the Canton City School District at 1312 5th Street SW, Canton, Ohio 44707-4798.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

The Canton Arts Academy Community School

The Canton Arts Academy Community School (the "Arts Academy") was a legally separate, conversion community school, served by a Board of Directors. The Arts Academy was designed to meet the academic and mental health needs of students, grades 3 through 8, and ages 9 through 14, who have an interest in visual and music arts. The Arts Academy operated under the direction of a Board of Directors that included as voting members one person serving as the representative of the District. In addition, the voting members of the Board of Directors included not more than six other persons who were neither officers nor employees of the District. No person became a voting member of the Board of Directors without prior approval of the District. The Canton City School District was the sponsoring School District of the Arts Academy under Ohio Law Section 3314. The Superintendent of the District served as the Chief Administrative Officer of the Arts Academy and the Treasurer served as the Chief Financial Officer. Based on the significant services provided by the District to the Arts Academy, the Arts Academy's purpose of servicing the students within the District, and the relationship between the Board of Education of the District and the Board of Directors of the Arts Academy, the Arts Academy was reflected as a component unit of the District. Effective June 5, 2008, the Arts Academy ceased operations and transferred all assets and liabilities to the Canton City School District (see Note 19). Separately issued financial statements for the Arts Academy can be obtained from the Treasurer of the Canton City School District at 1312 5th Street SW, Canton, Ohio 44707-4798.

JOINTLY GOVERNED ORGANIZATIONS

Canton Joint Recreation District

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

PUBLIC ENTITY RISK POOL

The Stark County Schools Council of Government (the "COG") is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the COG. All COG's revenues are generated from charges for services. The COG has a Health Benefits Program which is a shared risk pool comprised of various entities, most of which are school districts.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

The following are the District's major governmental funds:

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

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

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

Permanent Improvement Fund - This fund is used to account for all transactions related to the acquiring, constructing, or improving of such permanent improvements as are authorized by Chapter 5705, Ohio Revised Code.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds or the classroom facilities fund or the permanent improvement fund; and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. Proprietary funds consist of enterprise funds and internal service funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

The District's nonmajor enterprise funds are:

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

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

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

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

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

Private-purpose trust funds are reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 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, 2008 are recorded as deferred revenue in the governmental funds.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported as a nonoperating revenue (federal donated commodities) with a like amount reported as materials and supplies expense in the proprietary fund statements.

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

E. Budgets

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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

F. Cash and Investments

To improve cash management, cash received by the District, other than cash reported in segregated accounts, is pooled. Monies for all funds, including proprietary and fiduciary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the financial statements.

During fiscal year 2008, investments were limited to U.S. Treasury notes, repurchase agreements, nonnegotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit and repurchase agreements, are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2008. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2008.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$855,000 which includes \$632,000 assigned from other District funds.

Cash in segregated accounts represents monies held in depository accounts for construction retainage and separate depository accounts that were utilized by the District's three community school component units. These monies are held outside the District's internal investment pool. The retainage accounts are held by the District until successful completion of the related construction project. The depository accounts utilized by the District's three community school component units were transferred to the District upon dissolution of the three community schools (see Note 19); however, they were maintained separate from the District's internal investment pool at June 30, 2008.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

G. Inventory

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

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

H. Capital Assets

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

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. Capital assets transferred to the District upon dissolution of the three community school component units (see Note 19) were recorded at their net book value. The District maintains a capitalization threshold of \$5,000 for its general capital assets. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of enterprise capital assets is capitalized.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	20 years	N/A
Building/ improvements	25 - 50 years	N/A
Furniture/equipment	5 - 20 years	5 - 20 years
Vehicles	6 - 10 years	N/A

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances. The District had no internal balances at fiscal year-end.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2008, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

L. Fund Balance Reserves

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes represent monies restricted by State Statute for the purchase of textbooks/instructional materials and monies restricted by the State of Ohio for school 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. Prepayments

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

O. Parochial Schools

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

P. Estimates

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

Q. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. See Note 16 for further detail on the District's restricted assets at June 30, 2008 related to statutory reserves and see Note 10.D. for further detail on restricted assets related to QZAB sinking fund deposits maintained by the District.

R. Operating Revenues and Expenses

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

S. Interfund Activity

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

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2008, the District reported a special item for the net assets transferred to the District upon dissolution of three community schools which are component units of the District: the Canton Arts Academy Community School, Canton Academy Community School and the Canton City Schools Digital Academy. See Note 19 for further detail on the transactions related to the dissolution of the District's component units.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2008, the District has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the District; however, certain disclosures related to postemployment benefits (see Note 14) have been modified to conform to the new reporting requirements.

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the District.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2008 included the following individual fund deficits (amounts in 000's):

<u>Major Fund</u>	<u>Deficit Balance</u>
General	\$ 279
 <u>Nonmajor Governmental Funds</u>	
Poverty Aid	635
District Managed Student Activities	296
Public School Preschool	187
Career Education	1
Miscellaneous State Grants	14
Title I, Disadvantaged Children/Targeted Assistance	193
Vocational Education	68
Classroom Reduction	59
Miscellaneous Federal Grants	48
Children's Trust	10
CAP (H.B 810)	42

The general fund is liable for any deficits in the nonmajor governmental funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities and from the reporting of advances as a liability rather than as an other financing source. The deficits in the nonmajor governmental funds should be eliminated by future intergovernmental revenues not recognized under GAAP at June 30.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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 may be deposited or invested in the following securities:

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

A. Cash in Segregated Accounts

At June 30, 2008, the District had \$271,000 on deposit in retainage accounts related to various construction projects. This amount, which is held separate from the District's internal investment pool, is included on the financial statements as "cash in segregated accounts" and is included in deposits with financial institutions below.

At June 30, 2008, the District had \$1.537 million on deposit in separate depository accounts that were maintained by the District's three community school component units. Upon dissolution of the community schools, the cash balances were remitted to the District in accordance with the sponsorship agreements (see Note 19). These depository accounts, which are held separate from the District's internal investment pool, are included on the financial statements as "cash in segregated accounts" and are included in deposits with financial institutions below.

B. Deposits with Financial Institutions

At June 30, 2008, the carrying amount of all District deposits was \$16.458 million, exclusive of the \$6.240 million repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, \$11.962 million of the District's bank balance of \$12.850 million was exposed to custodial risk as discussed below, while \$888,000 was covered by the Federal Deposit Insurance Corporation.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2008, the District had the following investments and maturities (amounts in 000's):

Investment type	Balance at Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
Repurchase Agreement	\$ 6,240	\$ 6,240	\$ -	\$ -	\$ -	\$ -
STAR Ohio	16,296	16,296	-	-	-	-
U.S. Treasury Notes	8,671	-	-	-	-	8,671
	<u>\$ 31,207</u>	<u>\$ 22,536</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,671</u>

The weighted average maturity of investments is 1.25 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less. The District's investment policy limits investment in commercial paper to maturities of 180 days or less from the date of purchase. The District did not have investments in commercial paper at June 30, 2008.

Credit Risk: The federal agency securities underlying the District's repurchase agreement and the U.S. treasury notes were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. The District has no investment policy dealing with investment credit risk beyond the requirements in State statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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. The U.S. treasury notes are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. Of the District's \$6.240 million 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 investment policy places limits on the amount that may be invested in any one issuer. Investments in federal agency securities may not exceed 70% of the District's portfolio at time of purchase. In addition, no more than 25% of investments in federal agency securities may be in callable agency securities. Investments in commercial paper may not exceed 25% of the District's portfolio at time of purchase. The following table includes the percentage of each investment type held by the District at June 30, 2008 (amounts in 000's):

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 6,240	20.00
STAR Ohio	16,296	52.22
U.S. Treasury Notes	<u>8,671</u>	<u>27.78</u>
	<u>\$ 31,207</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2008 (amounts in 000's):

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 16,458
Investments	<u>31,207</u>
Total	<u>\$ 47,665</u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 45,149
Business-type activities	2,191
Private-purpose trust funds	104
Agency funds	<u>221</u>
Total	<u>\$ 47,665</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund loans receivable/payable consisted of the following at June 30, 2008, as reported on the fund statements (amounts in 000's):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 1,564
Debt service	General	134
Debt service	Nonmajor Governmental Funds	<u>237</u>
		<u>\$ 1,935</u>

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

The interfund loan payable in the district managed student activity special revenue fund (a nonmajor governmental fund) and the general fund of \$237,000 and \$134,000, respectively, represent the fiscal year-end balance of manuscript bonds that were issued by the Bond Retirement fund. A corresponding interfund loan receivable has been recorded in the debt service fund.

Interfund loans receivable/payable between governmental funds are eliminated for reporting on the statement of net assets. There are no internal balances between governmental activities and business-type activities at June 30, 2008.

- B. Interfund transfers for the year ended June 30, 2008, consisted of the following, as reported on the fund statements (amounts in 000's):

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 126
Debt service fund	734
Transfers from debt service fund to:	
General	38
Transfers from permanent improvement fund to:	
Debt service	746
Transfers from classroom facilities fund to:	
Permanent improvement	7,175
Transfers from nonmajor governmental funds:	
Nonmajor governmental funds	<u>17</u>
Total	<u>\$ 8,836</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

During fiscal year 2008, the District made a \$7.175 million transfer from the classroom facilities fund to the permanent improvement fund to reimburse the fund for locally funded initiative expenditures made by the permanent improvement fund in prior years.

During fiscal year 2008, the District made \$734,000 and \$746,000 in transfers from the general fund and permanent improvement fund, respectively, to the debt service fund related to long-term note principal and interest expenditures.

Interfund transfers between governmental funds are eliminated for reporting on the statement of activities. There were no transfers between governmental activities and business-type activities to report on the statement of activities at June 30, 2008.

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 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, 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 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 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 year 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. Tangible personal property tax is being phased out. For 2007, tangible personal property was assessed at 12.50% for property, including inventory. This percentage was reduced to 6.25% for 2008 and will be reduced to 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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 2008-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Stark County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available as an advance at June 30, 2008 was \$1.526 million in the general fund, \$181,000 in the debt service fund and \$66,000 in the permanent improvement fund. This amount is recorded as revenue. The amount that was available for advance at June 30, 2007 was \$1.144 million in the general fund, \$136,000 in the debt service fund and \$50,000 in the permanent improvement fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary depending upon when the tax bills are sent by the County Auditor.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2008 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 2008 taxes were collected are (amounts in 000's):

	2007 Second Half Collections		2008 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 736,371	85.28	\$ 729,843	90.01
Public Utility Personal	44,862	5.20	35,757	4.41
Tangible Personal Property	<u>82,197</u>	<u>9.52</u>	<u>45,251</u>	<u>5.58</u>
Total	<u>\$ 863,430</u>	<u>100.00</u>	<u>\$ 810,851</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 60.10		\$ 60.10	
Debt service	4.50		4.50	
Permanent improvement	2.00		2.00	
Classroom maintenance	0.50		0.50	

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 7 - RECEIVABLES

Receivables at June 30, 2008 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. Principal items of receivables reported on the statement of net assets follows (amounts in 000's):

Governmental Activities

Taxes	\$ 40,385
Accounts	30
Intergovernmental	2,627
Accrued interest	<u>200</u>
Total governmental activities	<u>\$ 43,242</u>

Business-Type Activities

Intergovernmental	\$ 480
Accounts	<u>1</u>
Total business-type activities	<u>\$ 481</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 8 - CAPITAL ASSETS

A. Governmental Activities

Capital asset activity for the fiscal year-ended June 30, 2008, was as follows (amounts in 000's):

	Balance			Balance
	<u>June 30, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2008</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 17,412	\$ 1	\$ -	\$ 17,413
Construction in progress	<u>26,645</u>	<u>2,999</u>	<u>(15,679)</u>	<u>13,965</u>
Total capital assets, not being depreciated	<u>44,057</u>	<u>3,000</u>	<u>(15,679)</u>	<u>31,378</u>
Capital assets, being depreciated:				
Land improvements	5,864	1,283	-	7,147
Building/improvements	175,476	15,753	-	191,229
Furniture/equipment	6,912	641	-	7,553
Vehicles	<u>4,338</u>	<u>160</u>	-	<u>4,498</u>
Total capital assets, being depreciated	<u>192,590</u>	<u>17,837</u>	<u>-</u>	<u>210,427</u>
Less: accumulated depreciation				
Land improvements	(1,937)	(283)	-	(2,220)
Building/improvements	(37,287)	(3,728)	-	(41,015)
Furniture/equipment	(5,387)	(464)	-	(5,851)
Vehicles	<u>(3,662)</u>	<u>(129)</u>	-	<u>(3,791)</u>
Total accumulated depreciation	<u>(48,273)</u>	<u>(4,604)</u>	<u>-</u>	<u>(52,877)</u>
Governmental activities capital assets, net	<u>\$ 188,374</u>	<u>\$ 16,233</u>	<u>\$ (15,679)</u>	<u>\$ 188,928</u>

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

Instruction:	
Regular	\$ 2,345
Special	463
Support Services:	
Pupil	143
Instructional staff	252
Administration	326
Operations and maintenance of plant	246
Pupil transportation	113
Operation of non-instructional services	445
Extracurricular activities	<u>271</u>
Total depreciation expense	<u>\$ 4,604</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Business-Type Activities

Capital asset activity for the fiscal year-ended June 30, 2008, was as follows (amounts in 000's):

	Balance			Balance
	<u>June 30, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2008</u>
Business-Type Activities				
Capital assets, being depreciated:				
Furniture/equipment	\$ 948	\$ 42	\$ -	\$ 990
Less: accumulated depreciation	<u>(706)</u>	<u>(32)</u>	<u>-</u>	<u>(738)</u>
Business-type activities capital assets, net	<u>\$ 242</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 252</u>

Depreciation expense was charged to business-type activities as follows (amounts in 000's):

Food service	\$ 31
Adult education	<u>1</u>
Total depreciation expense	<u>\$ 32</u>

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Governmental activities capital assets consisting of copier equipment, stadium scoreboard and stadium improvements have been capitalized in the amount of \$2.113 million. This amount represents the present value of the future minimum lease payments at the time of acquisition. During fiscal year 2008, the District retired the capital lease obligation for the copier equipment. A corresponding liability is recorded on the statement of net assets. Principal and interest payments in the 2008 fiscal year totaled \$229,000 and \$40,000, respectively. These amounts are reported as debt service payments of the general fund, the permanent improvement fund and the wells/fawcett stadium trust fund (a nonmajor governmental fund).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2008 follows (amounts in 000's):

<u>Year Ending June 30</u>	<u>Amount</u>
2009	\$ 101
2010	101
2011	101
2012	101
2013	101
2014 - 2018	263
2019 - 2021	<u>158</u>
Total minimum lease payment	926
Less: amount representing interest	<u>(204)</u>
Present value of minimum lease payments	<u>\$ 722</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. Series 2000 General Obligation Bonds

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

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the OSFC. OSFC will make quarterly disbursements to the District as the project is completed.

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

During fiscal year 2005, the callable portion of the Series 2000 bonds was advance refunded (see Note 10.B). At June 30, 2008, current interest bonds with a par value of \$425,000 remain along with the capital appreciation bonds, par value \$241,000. The \$425,000 current interest bonds are scheduled to mature on December 1, 2010 and bear an interest rate of 5.625%. The capital appreciation bonds mature at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. During fiscal year 2008, the District retired one of the capital appreciation bonds in the amount of \$420,000 (original principal of \$150,000 plus accreted interest of \$270,000). The accreted value at maturity for the remaining capital appreciation bonds is \$840,000. As of June 30, 2008, a total of \$488,000 in accreted interest on the remaining capital appreciation bonds has been included on the statement of net assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The following is a schedule of maturity dates and effective interest rates for the capital appreciation bonds outstanding at June 30, 2008 (amounts in 000's):

	<u>Original Principal</u>	<u>Accreted Value at Maturity</u>	<u>Maturity Date</u>	<u>Effective Interest Rate</u>
Capital appreciation bond	\$ 129	\$ 420	12/1/2008	15.49%
Capital appreciation bond	<u>112</u>	<u>420</u>	12/1/2009	15.51%
Total	<u>\$ 241</u>	<u>\$ 840</u>		

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

The following is a schedule of activity for fiscal year 2008 on the Series 2000 general obligation bonds (amounts in 000's):

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>
Current interest bonds	\$ 425	\$ -	\$ -	\$ 425
Capital appreciation bonds	391	-	(150)	241
Accreted interest on capital appreciation bonds	<u>631</u>	<u>127</u>	<u>(270)</u>	<u>488</u>
Total	<u>\$ 1,447</u>	<u>\$ 127</u>	<u>\$ (420)</u>	<u>\$ 1,154</u>

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

<u>Fiscal Year Ending</u>	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ -	\$ 21	\$ 21	\$ 129	\$ 291	\$ 420
2010	-	21	21	112	308	420
2011	<u>425</u>	<u>10</u>	<u>435</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 425</u>	<u>\$ 52</u>	<u>\$ 477</u>	<u>\$ 241</u>	<u>\$ 599</u>	<u>\$ 840</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

B. Series 2005 General Obligation Refunding Bonds

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

The refunding issue is comprised of both current interest bonds, par value \$27.855 million, and capital appreciation bonds, par value \$470,000. The average interest rate on the current interest bonds is 4.10%. The capital appreciation bonds mature December 1, 2012 and December 1, 2013 (effective interest 22.126%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$2.735 million. Total accreted interest of \$442,000 has been included on the statement of net assets at June 30, 2008.

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

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

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

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

The following is a schedule of the future debt service requirements to maturity for the Series 2005 general obligation refunding bonds (amounts in 000's):

	<u>Balance June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>
Current interest bonds	\$ 27,075	\$ -	(180)	26,895
Capital appreciation bonds	470	-	-	470
Accreted interest on capital appreciation bonds	<u>269</u>	<u>173</u>	<u>-</u>	<u>442</u>
Total G.O. Bonds	<u>\$ 27,814</u>	<u>\$ 173</u>	<u>\$ (180)</u>	<u>\$ 27,807</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year <u>Ending</u>	Current Interest Bonds			Capital Appreciation Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 185	\$ 1,274	\$ 1,459	\$ -	\$ -	\$ -
2010	190	1,269	1,459	-	-	-
2011	195	1,262	1,457	-	-	-
2012	650	1,248	1,898	-	-	-
2013	-	1,237	1,237	133	532	665
2014 - 2018	8,890	5,369	14,259	337	1,733	2,070
2019 - 2023	13,635	2,558	16,193	-	-	-
2024	<u>3,150</u>	<u>79</u>	<u>3,229</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 26,895</u>	<u>\$ 14,296</u>	<u>\$41,191</u>	<u>\$ 470</u>	<u>\$ 2,265</u>	<u>\$ 2,735</u>

C. Notes Payable

During fiscal year 2004, the District issued \$3.4 million in Series 2004 tax anticipation notes. During fiscal year 2002, the District issued \$6.165 million in Series 2002 tax anticipation notes. The Series 2004 notes bear annual interest rates ranging from 2.80% - 4.75% and mature on December 1, 2009. The Series 2002 notes bear annual interest rates ranging from 3.25% - 5.00% and mature on June 1, 2013. The 2004 Series notes will be retired from future tax revenues from the general fund while the Series 2002 notes will be retired with future tax revenues of the permanent improvement fund. The tax revenues collected by the respective funds are transferred to the debt service fund for payment of the principal and interest on the notes (see Note 5.B). These notes are considered long-term obligations since the proceeds were used for capital acquisition and construction. A summary of the tax anticipation note activity for the fiscal year ended June 30, 2008 follows (amounts in 000's):

	Balance <u>June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2008</u>
Tax anticipation note - Series 2002	\$ 3,980	\$ -	\$ (600)	\$ 3,380
Tax anticipation note - Series 2004	<u>2,040</u>	<u>-</u>	<u>(680)</u>	<u>1,360</u>
Total	<u>\$ 6,020</u>	<u>\$ -</u>	<u>\$ (1,280)</u>	<u>\$ 4,740</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal <u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,305	\$ 157	\$ 1,462
2010	1,330	109	1,439
2011	675	71	746
2012	700	43	743
2013	<u>730</u>	<u>15</u>	<u>745</u>
Total	<u>\$ 4,740</u>	<u>\$ 395</u>	<u>\$ 5,135</u>

D. Series 2000 Qualified Zone Academy Bonds

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The QZAB Series 2000 bonds bear no interest and the QZAB Series 2001 bonds require stated annual interest payments. During fiscal year 2008, the District made \$1.237 million in sinking fund deposits. Since inception, a total of \$8.301 million in sinking fund deposits have been made by the District to retire the QZABs at maturity. These deposits are maintained by the District until maturity of the QZABs in fiscal year 2014 and 2016. The resources, being accumulated through the sinking fund, are reported in the debt service fund. On the fund financial statements and on the statement of net assets, the fair market value of the investments accumulated in the sinking fund in the amount of \$8.671 million are reported as a restricted asset since the condition underlying the restriction will not be met in the short or medium term.

E. Retirement Incentive Program and Health Care Reimbursement Arrangement

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

In addition to severance payments, employees electing to retire under the RIP are entitled to a health care reimbursement arrangement (HRA) established by the District for the benefit of the retiring teachers and their spouses. Under the HRA, retiring teachers will receive payments, by year, in varying amounts between \$500 to \$5,300 which will be deposited by the District into a separate account established for the retired employee and their spouse. The HRA is effective until January 15, 2016 or until the retiree and his or her spouse become deceased. The amounts deposited to a retiree's account may be carried forward over to subsequent years and shall not be subject to forfeiture, except upon the death of both the retiree and his or her spouse. The HRA liability has been recorded in the general fund to the extent the health care costs are expected to be liquidated with expendable available resources. The remainder of the liability has been recorded on the government-wide statement of net assets as a component of "long-term liabilities". The total estimated liability under the HRA June 30, 2008 was \$6.756 million of which \$948,000 is expected to become due within one year. A total of 197 employees have retired under the HRA as of June 30, 2008. The total HRA liability was calculated based upon required payments under the HRA for each applicable employee.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

- F. The changes in the District's long-term obligations during the year consist of the following (amounts in 000's):

	Balance			Balance	Amounts
	June 30, 2007	Additions	Reductions	June 30, 2008	Due in
					One Year
Governmental Activities					
General obligation bonds:					
Current interest	\$ 27,500	\$ -	\$ (180)	\$ 27,320	\$ 185
Capital appreciation	861	-	(150)	711	129
Accreted interest	900	300	(270)	930	291
QZAB's	16,100	-	-	16,100	-
Total G.O. bonds	<u>45,361</u>	<u>300</u>	<u>(600)</u>	<u>45,061</u>	<u>605</u>
Notes payable	6,020	-	(1,280)	4,740	1,305
Compensated absences payable	4,335	1,345	(966)	4,714	1,032
Health care reimbursement arrangement payable	7,291	-	(535)	6,756	948
Capital lease obligation	<u>951</u>	<u>-</u>	<u>(229)</u>	<u>722</u>	<u>69</u>
Total governmental activities long-term liabilities	63,958	<u>\$ 1,645</u>	<u>\$ (3,610)</u>	61,993	<u>\$ 3,959</u>
Less: deferred charge on refunding	\$ (2,035)			(1,911)	
Add: unamortized premium	<u>2,429</u>			<u>2,274</u>	
Total on statement of net assets	<u>\$ 64,352</u>			<u>\$ 62,356</u>	
Business-Type Activities					
Compensated absences	<u>\$ 131</u>	<u>\$ 16</u>	<u>\$ (21)</u>	<u>\$ 126</u>	<u>\$ 32</u>
Total business-type activities long-term liabilities	<u>\$ 131</u>	<u>\$ 16</u>	<u>\$ (21)</u>	<u>\$ 126</u>	<u>\$ 32</u>

Compensated absences will be paid from the fund from which the employee is paid which, for the District, is primarily the general fund and the food service fund (a nonmajor enterprise fund). The health care reimbursement arrangement payable will be paid from the general fund.

See Note 9 for detail on the District's capital lease obligations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

G. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The 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, 2008, are a voted debt margin of \$51.737 million (including available funds of \$10.948 million) and an unvoted debt margin of \$765,000.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

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

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$ 1,000,000	\$ 0
Aggregate	2,000,000	0
Building and contents	309,353,844	10,000
Boiler and machinery	5,000,000	5,000
Fleet:		
Liability	1,000,000	0
Uninsured motorist	1,000,000	0
Comprehensive	1,000,000	250
Collision	1,000,000	500
Umbrella liability	10,000,000	0

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from fiscal year 2007.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 11 - RISK MANAGEMENT - (Continued)

B. Shared Risk Pool

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

C. Workers’ Compensation Program

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

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2008	\$ 861	\$ 264	\$ (392)	\$ 733
2007	503	723	(365)	861

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 12 - COMPENSATED ABSENCES

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Teachers and some administrators do not earn vacation time. Administrators, clerical, technical, and maintenance and operations employees with one or more years of service are entitled to vacation ranging from 5 to 30 days. Employees with less than one year of service earn one vacation day per month worked, not to exceed 10 days. Unused vacation is not cumulative to the next year.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees) up to 15 days per year. This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-quarter of the accumulated sick leave for the first 120 days, one-fifth of sick leave for days between 121 - 285 and an additional 2 days for an employee with greater than 285 days accumulated.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$1.290 million, \$1.479 million, and \$1.424 million, respectively; 38.96 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 13 - 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007 and 2006 were \$6.895 million, \$7.159 million and \$7.113 million, respectively; 82.56 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$40,000 made by the District and \$115,000 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2008, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$814,000, \$711,000 and \$727,000, respectively; 38.96 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$93,000, \$101,000 and \$113,000 respectively; 38.96 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$530,000, \$551,000 and \$547,000, respectively; 82.56 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and
- (e) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows (amounts in 000's):

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ 1,058
Net adjustment for revenue accruals	(637)
Net adjustment for expenditure accruals	156
Net adjustment for other sources/uses	1,442
Net adjustment for net assets to Canton City School District upon dissolution of component units	1,753
Adjustment for encumbrances	<u>2,906</u>
GAAP basis	<u>\$ 6,678</u>

NOTE 16 - STATUTORY RESERVES

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

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

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2007	\$ 1,029	\$ (38,584)
Current year set-aside requirement	1,671	1,671
Qualifying off-sets	-	(1,241)
Qualifying disbursements	<u>(1,514)</u>	<u>-</u>
Total	<u>\$ 1,186</u>	<u>\$ (38,154)</u>
Balance carried forward to fiscal 2009	<u>\$ 1,186</u>	<u>\$ (38,154)</u>

During fiscal year 2001, the District issued \$46.706 million of general obligation bonds related to the Ohio Schools Facilities Commission project under taken by the District. Those bond proceeds may be used to reduce the capital acquisition reserve for future years.

In addition to the above statutory reserves, the District received \$44,000 from the State of Ohio that is restricted for school bus purchases.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 16 - STATUTORY RESERVES - (Continued)

The balance in the set-aside reserve carried forward to fiscal year 2009 for textbook/instructional materials and the amounts received from the State of Ohio for school bus purchases are reported as reservations of fund balance and restricted assets in the general fund and as a restricted net asset for other purposes and restricted assets on the statement of net assets (amounts in 000's).

A schedule of the restricted assets at June 30, 2008 follows:

Amounts restricted for textbooks/instructional materials	\$ 1,186
Amounts restricted for school bus purchases	<u>44</u>
Total restricted assets	<u><u>\$ 1,230</u></u>

NOTE 17 - CONTRACTUAL COMMITMENTS

As of June 30, 2008, the District entered into various contractual commitments for the OSFC Project described in Note 10A. A summary of the primary contractual commitments outstanding at June 30, 2008, follows (amounts in 000's):

Project	Contractual Cost Estimate	Total Estimated Costs at June 30	Remaining Contractual Commitment
McKinley High School	\$ 14,214	\$ 13,965	\$ 249
Totals	<u><u>\$ 14,214</u></u>	<u><u>\$ 13,965</u></u>	<u><u>\$ 249</u></u>

NOTE 18 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 19 – COMMUNITY SCHOOLS

On February 4, 2008, the Canton City School District Board of Education accepted the recommendation of the Canton City School District Facilities Committee that the Canton City Schools Digital Academy (the “Digital Academy”), a component unit of the Canton City School District, become a program of the Canton City School District and cease to be a District sponsored charter school. The Digital Academy ceased operations effective June 5, 2008.

On February 4, 2008, the Canton City School District Board of Education accepted the recommendation of the Canton City School District Facilities Committee that the Canton Arts Academy Community School (the “Arts Academy”), a component unit of the Canton City School District, become a PreK – 8 Canton City School District theme/magnet school and cease to be a District sponsored charter school. The Arts Academy ceased operations effective June 5, 2008.

On May 12, 2008, the Board of Directors of the Canton Academy Community School (the “Academy”), a component unit of the Canton City School District, passed a resolution to transfer all property of every description, and every interest therein, and all obligations of or belonging to or due the Academy including all budgets and appropriations to the Canton City School District effective June 6, 2008. The Academy ceased operations effective June 5, 2008.

In accordance with the Sponsorship Contracts for the above mentioned community schools, upon dissolution, any remaining assets and liabilities of the community schools are to be conveyed to the Sponsor (Canton City School District). On June 5, 2008, the community schools transferred the following assets and liabilities to the District in accordance with the Sponsorship Contracts (amounts in 000’s):

	Canton Arts Academy	Canton Academy	Canton Digital Academy	Total
<u>Assets:</u>				
Cash in segregated accounts	\$ 457	\$ 214	\$ 1,166	\$ 1,837
Prepayments	-	2	-	2
Intergovernmental receivables	60	32	391	483
Assets to Canton City School District upon dissolution	517	248	1,557	2,322
<u>Liabilities:</u>				
Accounts payable	16	-	13	29
Intergovernmental payable	314	94	132	540
Liabilities to Canton City School District upon dissolution	330	94	145	569
Total net assets to Canton City School District reported on fund financial statements	187	154	1,412	1,753
Community school capital assets, net, to Canton City School District upon dissolution:				
Capitalized by Canton City School District	144	199	184	527
Not capitalized by Canton City School District	44	7	38	89
Total net assets to Canton City School District reported on government-wide financial statements	\$ 375	\$ 360	\$ 1,634	\$ 2,369

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 19 – COMMUNITY SCHOOLS - (Continued)

On the fund financial statements, the transfer of net assets to the District (\$1.753 million) is reflected on the statement of revenues, expenditures, and changes in fund balances as a special item titled “Net assets to Canton City School District upon dissolution of component units”. The assets and liabilities transferred are reported in the District’s general fund on the balance sheet.

On the government-wide financial statements, the transfer of net assets to the District (\$2.369 million) is reflected on the statement of activities as a special item titled “Net assets to Canton City School District upon dissolution of component units”. The assets and liabilities transferred are reported in the governmental activities column on the statement of net assets. Component unit capital assets, net of accumulated depreciation, that were transferred to the District that do not meet the District’s capitalization threshold were recorded as “regular instruction expense” on the statement of activities. The amount of non-capitalized assets charged to regular instruction expense on the statement of activities was \$89,000. Component unit capital assets, net of accumulated depreciation, that were transferred to the District that meet the District’s capitalization threshold were recorded as capital assets on the statement of net assets. The amount of capital assets, net of accumulated depreciation, recorded on the District’s statement of net assets was \$527,000.

For the period June 6, 2008 through June 30, 2008, the District has recorded the operations of the community schools as revenues and expenditures of the general fund on the statement of revenues, expenditures and changes in fund balance and as revenues and expenses of the governmental activities on the statement of activities.

During the dissolution process the Academy consulted the Ohio Department of Education, Office of Community Schools.

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Sub Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. Department of Education</u>						
<i>(Direct)</i>						
Impact Aid	84.041	N/A	\$24,271	-	\$24,271	-
Student Financial Aid Cluster:						
Federal Pell Grant Program	84.063	N/A	254,897	-	276,975	-
Federal Family Education Loans	84.032	N/A	133,400	-	133,400	-
Total Student Financial Aid Cluster			388,297	-	410,375	-
<i>(Passed through the Ohio Department of Education)</i>						
Adult Education - Basic Grants to States	84.002	043711ABS208	56,030	-	56,030	-
		043711ABS108	362,626	-	580,596	-
		043711ABS107	-	-	50,622	-
		043711ABS207	-	-	623	-
Total Adult Education - Basic Grants to States			418,656	-	687,871	-
Title I Grants to Local Educational Agencies	84.010	043711C1SN08	16,052	-	15,424	-
		043711C1SN07	5,622	-	6,442	-
		043711C1SD07	81,992	-	79,092	-
		043711C1SK08	123,202	-	128,859	-
		043711C1SD08	16,047	-	20,061	-
		043711C1S108	3,795,912	-	3,984,338	-
		043711C1S107	-	-	24,172	-
		043711C1S107	913,192	-	792,589	-
Total Title I Grants to Local Educational Agencies			4,952,019	-	5,050,977	-
Special Education Cluster:						
Special Education Grants to States	84.027	0437116BSF07	309,457	-	661,260	-
		0437116BSF08	3,591,967	-	2,399,692	-
Total Special Education Grants to States			3,901,424	-	3,060,952	-
Special Education Preschool Grants	84.173	043711PGS106P	-	-	8,617	-
		043711PGS108P	85,005	-	72,355	-
		043711PGS107P	(2,000)	-	4,299	-
Total Special Education Preschool Grants			83,005	-	85,271	-
Total Special Education Cluster			3,984,429	-	3,146,223	-
Career and Technical Education - Basic Grants to States	84.048	04371120C207	25,693	-	24,082	-
		04371120C107	50,026	-	56,604	-
		04371120C108	294,001	-	273,965	-
		04371120C208	33,608	-	46,876	-
Total Career and Technical Education - Basic Grants to States			403,328	-	401,527	-
Safe and Drug Free Schools and Communities - State Grants	84.186	043711DRS108	8,996	-	77,231	-
		043711DRS107	36,962	-	480	-
Total Safe and Drug Free Schools and Communities - State Grants			45,958	-	77,711	-

CONTINUED

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Sub Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
Education for Homeless Children and Youth	84.196	043711HCS108 043711HCS107	\$36,083 <u>37,733</u>	- -	\$37,514 <u>29,838</u>	- -
<i>Total Education for Homeless Children and Youth</i>			73,816	-	67,352	-
Even Start State Educational Agencies	84.213	043711EVS107 043711EVS108	- <u>186,402</u>	- -	5,336 <u>194,891</u>	- -
<i>Total Even Start State Educational Agencies</i>			186,402	-	200,227	-
21st Century Community Learning Centers	84.287	043711T1S107	12,949	-	46,974	-
State Grants for Innovative Programs	84.298	043711C2S108 043711C2S107	1,830 <u>17,263</u>	- -	5,611 <u>260</u>	- -
<i>Total State Grants for Innovative Programs</i>			19,093	-	5,871	-
Education Technology State Grants	84.318	043711TJS107 043711TJS108 043711TJSL07 043711TJSL08	7,071 25,555 44,444 <u>154,984</u>	- - - -	3,655 34,278 - <u>181,439</u>	- - - -
<i>Total Education Technology State Grants</i>			232,054	-	219,372	-
Comprehensive School Reform Demonstration	84.332	043711RFCC08 043711RFCC07	1,326 <u>22,453</u>	- -	1,328 <u>29,180</u>	- -
<i>Total Comprehensive School Reform Demonstration</i>			23,779	-	30,508	-
Improving Teacher Quality State Grants	84.367	043711TRS107 043711TRS108	184,486 628,557	- -	128,598 743,268	- -
Harvard Leadership Initiative		043711HARVARD	-	-	<u>43,000</u>	-
<i>Total Improving Teacher Quality State Grants</i>			813,043	-	914,866	-
Fund for Improvement of Education (Smaller Learning Communities)	84.215	V215L042071	131,068	-	151,770	-
(Passed through the National Council for Community and Education Partnership)						
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334A000	-	-	62	-
English Language Acquisition Grants	84.365	043711T3S208	<u>11,536</u>	-	<u>11,299</u>	-
Total U.S. Department of Education			<u>11,720,698</u>	-	<u>11,447,256</u>	-

CONTINUED

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Sub Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
(Direct)						
Child and Adult Care Food Program	10.558	N/A	\$12,722	-	\$12,072	-
(Passed through the Ohio Department of Education)						
Food Distribution	10.550	N/A	-	268,229	-	263,904
Child Nutrition Cluster:						
School Breakfast Program	10.553	N/A	661,308	-	633,908	-
National School Lunch Program	10.555	N/A	2,120,279	-	2,120,279	-
<i>Total Child Nutrition Cluster</i>			<u>2,781,587</u>	<u>-</u>	<u>2,754,187</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>2,794,309</u>	<u>268,229</u>	<u>2,766,259</u>	<u>263,904</u>
U.S. Department of Labor						
(Passed through Service Delivery Area No. 23)						
Workforce Investment Act - Youth	17.259	N/A	-	-	33,916	-
Total U.S. Department of Labor			<u>-</u>	<u>-</u>	<u>33,916</u>	<u>-</u>
U.S. Department of Health and Human Services						
(Passed through the Ohio Department of Jobs and Family Services)						
Temporary Assistance for Needy Families						
Student Intervention	93.558	N/A	92,798	-	57,262	-
Governors Initiative			67,322	-	175,529	-
<i>Total Temporary Assistance for Needy Families Passed through the Ohio Department of Jobs and Family Services</i>			160,120	-	232,791	-
(Passed through the Stark County Educational Service Center)						
Temporary Assistance for Needy Families	93.558	N/A	21,839	-	21,839	-
Total Temporary Assistance for Needy Families			<u>181,959</u>	<u>-</u>	<u>254,630</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>181,959</u>	<u>-</u>	<u>254,630</u>	<u>-</u>
Total			<u>\$14,696,966</u>	<u>\$268,229</u>	<u>\$14,502,061</u>	<u>\$263,904</u>

The accompanying notes are an integral part of this schedule.

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2008**

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 – CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

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



Mary Taylor, CPA

Auditor of State

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

Canton City School District
Stark County
1312 5th Street S.W.
Canton, Ohio 44707

To the Board of Education:

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Canton City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 21, 2009 in which we noted the District's component units, the Canton City Schools Digital Academy, the Canton Arts Academy Community School, and the Canton Academy Community School ceased operations as of June 5, 2008 at which time all assets, liabilities, and net assets were transferred to the sponsor, Canton City School District. 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.

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.

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

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We noted certain matters that we reported to the District's management in a separate letter dated April 21, 2009.

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 that 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 April 21, 2009.

We intend this report solely for the information and use of 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

April 21, 2009



Mary Taylor, CPA

Auditor of State

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

Canton City School District
Stark County
1312 5th Street S.W.
Canton, Ohio 44707

To the Board of Education:

Compliance

We have audited the compliance of Canton City School District, Stark County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2008. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

The District's basic financial statements include the operations of the Canton Academy Community School, Canton City Schools Digital Academy, and Canton Arts Academy Community School, which received \$75,875; \$32,154; and \$222,336, respectively, in federal awards which is not included in the Federal Awards Receipts and Expenditures Schedule for the year ended June 30, 2008. Our audit of Federal awards, described below, did not include the operations of Canton Academy Community School, Canton City Schools Digital Academy, and Canton Arts Academy Community School because each component unit is legally separate from the primary government, which this report addresses, and because each expended less than \$500,000 of federal awards for the year ended June 30, 2008, they were not subject to OMB Circular A-133 audit requirements.

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

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In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2008. In a separate letter to the District's management dated April 21, 2009, we reported other matters related to federal noncompliance not requiring inclusion in this report.

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. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated April 21, 2009.

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



Mary Taylor, CPA
Auditor of State

April 21, 2009

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies CFDA #84.010 Child Nutrition Cluster: School Breakfast Program CFDA #10.553 and National School Lunch CFDA #10.555
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 442,979 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

CANTON CITY SCHOOL DISTRICT

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 4, 2009