

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

***BASIC FINANCIAL STATEMENTS
(AUDITED)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2003***

JIM REINHARD, TREASURER



**Auditor of State
Betty Montgomery**

Board of Education
Canton City School District

We have reviewed the Independent Auditor's Report of the Canton City School District, Stark County, prepared by Trimble, Julian & Grube, Inc. for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

February 11, 2004

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

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor’s Report

Board of Education
Canton City School District
617 McKinley Avenue, SW
Canton, Ohio 44707

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

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Canton City School District, Stark County, as of June 30, 2003, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the fiscal year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2004, on our consideration of the District’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Independent Auditor's Report
Canton City School District

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

Trimble, Julian & Grube, Inc.
January 23, 2004

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

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

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

- In total, net assets decreased \$2.770 million. Net assets of governmental activities decreased \$2.575 million, which represents a 1.53% decrease from 2002. Net assets of business-type activities decreased \$195,000 or 5.83% from 2002.
- General revenues for governmental activities, accounted for \$94.334 million in revenue or 74.17% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$32.844 million or 25.83% of total governmental activities revenues of \$127.178 million.
- The District had \$129.751 million in expenses related to governmental activities; only \$32.844 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 \$94.334 million were not adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund and classroom facilities fund. The general fund had \$92.447 million in revenues and other financing sources and \$96.844 million in expenditures and other financing uses. The general fund's fund balance decreased \$4.341 million from a deficit of \$1.464 million to a deficit of \$5.805 million.
- The debt service fund had \$3.453 million in revenues and \$2.145 million in expenditures. The debt service fund's fund balance increased \$1.308 million from \$4.338 million to \$5.646 million.
- The classroom facilities fund had \$31.714 million in revenues and \$26.154 million in expenditures. The classroom facilities fund's fund balance increased \$5.560 million from \$53.241 million to \$58.801 million.
- The District's two nonmajor enterprise funds are the food service fund and adult education fund. The food service fund had \$4.119 million in revenues and \$4.216 million in expenses. The food services fund net assets decreased \$97,000 from \$1.826 million to \$1.729 million.
- The District's other nonmajor enterprise fund is the adult education fund. The adult education fund had \$1.171 million in revenues and \$1.271 million in expenses. The adult education fund received a \$2,000 transfer in from the general fund during fiscal year 2003. The adult education fund net assets decreased \$98,000 from \$1.519 million to \$1.421 million.

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.

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

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

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 and classroom facilities 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 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the 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.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

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

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.

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.

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 27 and 28. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

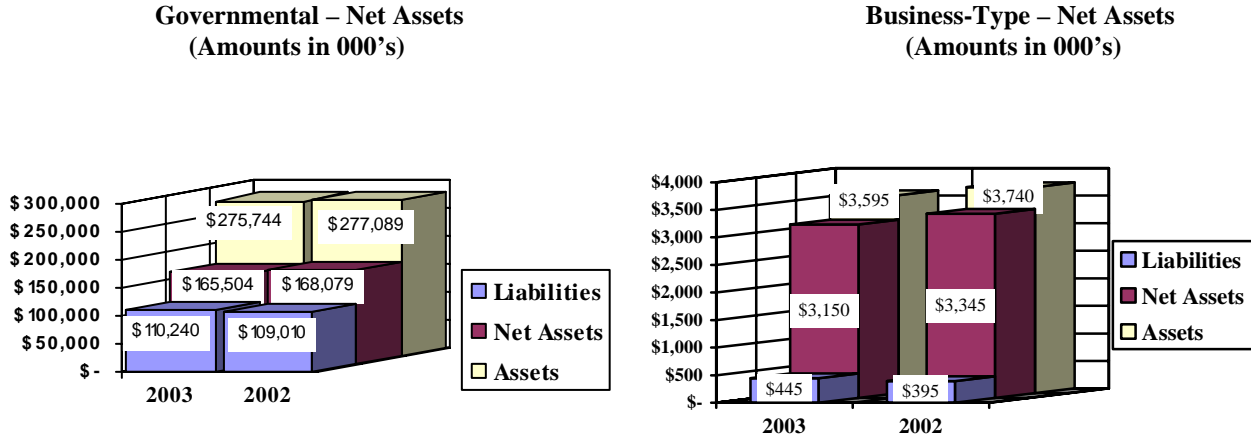
The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2003 and 2002.

| | Net Assets | | | |
|---|--------------------------------|-------------------|---------------------------------|-----------------|
| | (Amounts in 000's) | | | |
| | Governmental Activities | | Business-Type Activities | |
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| <u>Assets</u> | | | | |
| Current assets | \$ 183,526 | \$ 209,528 | \$ 3,391 | \$ 3,498 |
| Capital assets | 92,218 | 67,561 | 204 | 242 |
| Total assets | <u>275,744</u> | <u>277,089</u> | <u>3,595</u> | <u>3,740</u> |
| <u>Liabilities</u> | | | | |
| Current liabilities | 51,387 | 51,347 | 367 | 319 |
| Long-term liabilities | <u>58,853</u> | <u>57,663</u> | <u>78</u> | <u>76</u> |
| Total liabilities | <u>110,240</u> | <u>109,010</u> | <u>445</u> | <u>395</u> |
| <u>Net Assets</u> | | | | |
| Invested in capital assets, net of debt | 91,106 | 67,543 | 204 | 242 |
| Restricted | 81,550 | 106,020 | - | - |
| Unrestricted | <u>(7,152)</u> | <u>(5,484)</u> | <u>2,946</u> | <u>3,103</u> |
| Total net assets | <u>\$ 165,504</u> | <u>\$ 168,079</u> | <u>\$ 3,150</u> | <u>\$ 3,345</u> |

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

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

Total net assets of the District decreased by \$2.770 million, governmental activities net assets decreased \$2.575 million and business-type activities net assets decreased \$195,000.



The table below shows the changes in net assets for governmental activities and business-type activities for fiscal year 2003 and 2002.

| | Change in Net Assets (Amounts in 000's) | | | |
|------------------------------------|--|----------------|---------------------------------|--------------|
| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | |
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| <u>Revenues</u> | | | | |
| Program revenues: | | | | |
| Charges for services and sales | \$ 3,954 | \$ 2,864 | \$ 1,452 | \$ 1,597 |
| Operating grants and contributions | 26,999 | 23,788 | 3,797 | 3,737 |
| Capital grants and contributions | 1,891 | 3,791 | - | - |
| General revenues: | | | | |
| Property taxes | 31,978 | 31,882 | - | - |
| Grants and entitlements | 58,908 | 56,216 | - | - |
| Investment earnings | 2,696 | 1,120 | 41 | 19 |
| Other | 752 | 326 | - | 1 |
| Total revenues | <u>127,178</u> | <u>119,987</u> | <u>5,290</u> | <u>5,354</u> |

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

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

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | |
|---|--------------------------------|-------------------|---------------------------------|-----------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| <u>Expenses</u> | | | | |
| Program expenses: | | | | |
| Instruction: | | | | |
| Regular | 45,005 | 46,201 | - | - |
| Special | 16,944 | 17,330 | - | - |
| Vocational | 2,890 | 2,775 | - | - |
| Other | 6,819 | 3,911 | - | - |
| Support services: | | | | |
| Pupil | 8,845 | 8,769 | - | - |
| Instructional staff | 7,258 | 6,308 | - | - |
| Board of Education | 3 | 42 | - | - |
| Administration | 10,742 | 10,080 | - | - |
| Fiscal | 1,454 | 1,554 | - | - |
| Business | 1,028 | 873 | - | - |
| Operations and maintenance | 16,121 | 12,909 | - | - |
| Pupil transportation | 2,997 | 3,099 | - | - |
| Central | 3,735 | 5,386 | - | - |
| Operation of non-instructional services | 1,261 | 1,437 | - | - |
| Extracurricular activities | 2,040 | 1,950 | - | - |
| Other | - | 272 | - | - |
| Intergovernmental | 554 | 413 | - | - |
| Interest and fiscal charges | 2,055 | 1,770 | - | - |
| Food service | - | - | 4,216 | 4,694 |
| Adult education | - | - | 1,271 | 1,079 |
| Total expenses | <u>129,751</u> | <u>125,079</u> | <u>5,487</u> | <u>5,773</u> |
| Transfers out | (2) | - | - | - |
| <u>Special Item</u> | | | | |
| Loss on exchange of capital assets | - | (216) | - | - |
| Changes in net assets | <u>\$ (2,575)</u> | <u>\$ (5,308)</u> | <u>\$ (195)</u> | <u>\$ (419)</u> |

Governmental Activities

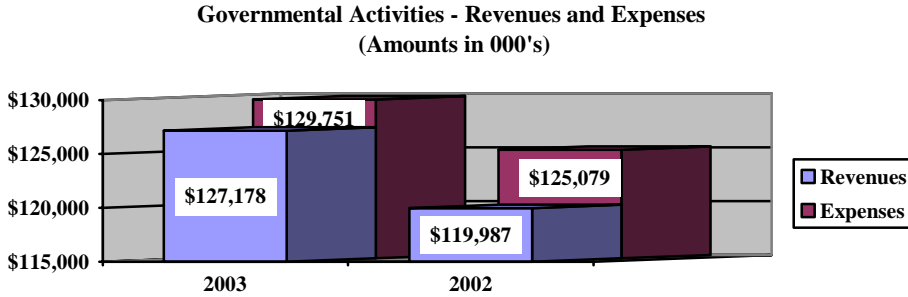
Net assets of the District's governmental activities decreased by \$2.575 million. Total governmental expenses of \$129.751 million were offset by program revenues of \$32.844 million and general revenues of \$94.334 million. Program revenues supported 25.31% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 71.46% of total governmental revenue. Real estate property is reappraised every six years.

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

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

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



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 2003. That is, it identifies the cost of these services supported by tax revenue and restricted State grants and entitlements.

Governmental Activities
(Amounts in 000's)

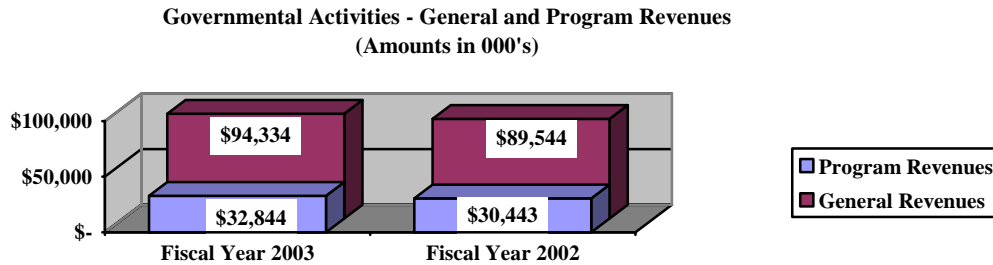
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
|---|---------------------------|-------------------------|---------------------------|-------------------------|
| | 2003 | 2003 | 2002 | 2002 |
| Program expenses: | | | | |
| Instruction: | | | | |
| Regular | \$ 45,005 | \$ 34,396 | \$ 46,201 | \$ 35,427 |
| Special | 16,944 | 10,668 | 17,330 | 13,288 |
| Vocational | 2,890 | 2,772 | 2,775 | 2,718 |
| Other | 6,819 | 5,638 | 3,911 | 2,920 |
| Support services: | | | | |
| Pupil | 8,845 | 6,485 | 8,769 | 6,614 |
| Instructional staff | 7,258 | 2,181 | 6,308 | 2,987 |
| Board of Education | 3 | 3 | 42 | 42 |
| Administration | 10,742 | 9,131 | 10,080 | 7,878 |
| Fiscal | 1,454 | 1,288 | 1,554 | 1,451 |
| Business | 1,028 | 1,028 | 873 | 855 |
| Operations and maintenance | 16,121 | 13,657 | 12,909 | 9,447 |
| Pupil transportation | 2,997 | 2,931 | 3,099 | 2,858 |
| Central | 3,735 | 2,842 | 5,386 | 3,932 |
| Operation of non-instructional services | 1,261 | 599 | 1,437 | 926 |
| Extracurricular activities | 2,040 | 1,298 | 1,950 | 1,325 |
| Other | - | - | 272 | 272 |
| Intergovernmental | 554 | (65) | 413 | (74) |
| Interest and fiscal charges | 2,055 | 2,055 | 1,770 | 1,770 |
| Total expenses | \$ 129,751 | \$ 96,907 | \$ 125,079 | \$ 94,636 |

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

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

The dependence upon tax revenues during fiscal year 2003 for governmental activities is apparent, as 74.62% of 2003 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 74.69% in 2003. The District's taxpayers, as a whole, is by far the primary support for District's students.

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



Business-Type Activities

Business-type activities include adult education and the food service operation. These programs had revenues of \$5.290 million and expenses of \$5.487 million for fiscal year 2003. During fiscal year 2003, the District is took steps to reduce expenses. Expenses for fiscal year 2003 were \$286,000 less than for fiscal year 2002. The District's business activities receive no support from tax revenues.

The District's Funds

The District's governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$62.848 million, which is below last year's total of \$63.715 million. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002 (Amounts in 000's).

| | Fund Balance <u>June 30, 2003</u> | Fund Balance <u>June 30, 2002</u> | Increase <u>(Decrease)</u> |
|----------------------|--------------------------------------|--------------------------------------|-------------------------------|
| General | \$ (5,805) | \$ (1,464) | \$ (4,341) |
| Debt Service | 5,646 | 4,338 | 1,308 |
| Classroom Facilities | 58,801 | 53,241 | 5,560 |
| Other Governmental | <u>4,206</u> | <u>7,600</u> | <u>(3,394)</u> |
| Total | <u>\$ 62,848</u> | <u>\$ 63,715</u> | <u>\$ (867)</u> |

General Fund

The District's general fund balance decreased by \$4.341 million, due to an increase in salaries and overall expenses. The table that follows assists in illustrating the financial activities and fund balance of the general fund (Amounts in 000's).

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

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

| | <u>2003</u> <u>Amount</u> | <u>2002</u> <u>Amount</u> | <u>Increase</u> <u>(Decrease)</u> | <u>Percentage</u> <u>Change</u> |
|---|------------------------------|------------------------------|--------------------------------------|------------------------------------|
| <u>Revenues</u> | | | | |
| Taxes | \$ 27,231 | \$ 25,879 | \$ 1,352 | 5.22 % |
| Interest earnings | 473 | 1,023 | (550) | (53.76) % |
| Intergovernmental | 59,945 | 57,443 | 2,502 | 4.36 % |
| Other revenues | <u>3,589</u> | <u>2,067</u> | <u>1,522</u> | 73.63 % |
| Total | <u>\$ 91,238</u> | <u>\$ 86,412</u> | <u>\$ 4,826</u> | 5.58 % |
| <u>Expenditures</u> | | | | |
| Instruction | \$ 58,056 | \$ 54,447 | \$ 3,609 | 6.63 % |
| Support services | 35,307 | 34,521 | 786 | 2.28 % |
| Operation of non-instructional services | 626 | 645 | (19) | (2.95) % |
| Extracurricular activities | 1,249 | 1,028 | 221 | 21.50 % |
| Facilities acquisition and construction | 171 | 391 | (220) | (56.27) % |
| Capital outlay | 1,183 | - | 1,183 | 100.00 % |
| Debt Service | <u>128</u> | <u>50</u> | <u>78</u> | 156.00 % |
| Total | <u>\$ 96,720</u> | <u>\$ 91,082</u> | <u>\$ 5,638</u> | 6.19 % |

Other revenues increased \$1.522 million or 73.63% from the prior year. This increase is attributed to an increase in the amount of tuition the District received in 2003. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year. Tax revenue also increased primarily due to an increase in the amount of taxes available for advance by the District at fiscal year-end. This amount can vary depending on when the tax bills are sent. All other revenue remained comparable to 2002. Instruction expenditures increased 6.63% and represents the largest expenditure item of the District.

Debt Service Fund

The District's debt service fund balance increased by \$1.308 million, due to an increase in interest earnings and tax revenue exceeding the debt service requirements during 2003. The table that follows assists in illustrating the financial activities and fund balance of the debt service fund (Amounts in 000's).

| | <u>2003</u> <u>Amount</u> | <u>2002</u> <u>Amount</u> | <u>Increase</u> <u>(Decrease)</u> | <u>Percentage</u> <u>Change</u> |
|------------------------|------------------------------|------------------------------|--------------------------------------|------------------------------------|
| <u>Revenues</u> | | | | |
| Taxes | \$ 2,935 | \$ 3,009 | \$ (74) | (2.46) % |
| Interest earnings | 219 | - | 219 | 100.00 % |
| Other | 1 | - | 1 | 100.00 % |
| Intergovernmental | <u>298</u> | <u>352</u> | <u>(54)</u> | (15.34) % |
| Total | <u>\$ 3,453</u> | <u>\$ 3,361</u> | <u>\$ 92</u> | 2.74 % |

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

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

Expenditures

| | | | | |
|--------------|-----------------|-----------------|--------------|------------|
| Other | \$ - | \$ 272 | \$ (272) | (100.00) % |
| Debt Service | <u>2,145</u> | <u>1,849</u> | <u>296</u> | 16.01 % |
| Total | <u>\$ 2,145</u> | <u>\$ 2,121</u> | <u>\$ 24</u> | 1.13 % |

Classroom Facilities Fund

The District's classroom facilities fund balance increased by \$5.560 million. The table that follows assists in illustrating the financial activities and fund balance of the classroom facilities fund (Amounts in 000's).

| | <u>2003 Amount</u> | <u>2002 Amount</u> | <u>Increase (Decrease)</u> | <u>Percentage Change</u> |
|------------------------|------------------------|------------------------|--------------------------------|------------------------------|
| <u>Revenues</u> | | | | |
| Interest earnings | \$ 1,741 | \$ 2,567 | \$ (826) | (32.18) % |
| Intergovernmental | <u>29,973</u> | <u>23,240</u> | <u>6,733</u> | 28.97 % |
| Total | <u>\$ 31,714</u> | <u>\$ 25,807</u> | <u>\$ 5,907</u> | 22.89 % |

Expenditures

| | | | | |
|---|------------------|------------------|-----------------|---------|
| Facilities acquisition and construction | <u>\$ 26,154</u> | <u>\$ 19,878</u> | <u>\$ 6,276</u> | 31.57 % |
| Total | <u>\$ 26,154</u> | <u>\$ 19,878</u> | <u>\$ 6,276</u> | 31.57 % |

Intergovernmental revenue increased \$6.733 million from the prior year. This increase is attributed to an increase in the building projects that were covered by the Ohio Schools Facilities grants the District received in 2003. Expenditures for the building projects also increase in 2003 versus 2002. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year.

General Fund Budgeting Highlights

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

During the course of fiscal 2003, the District amended its general fund budget numerous times, none significant. 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 \$92.952 million, below original budget estimates of \$101.442 million. The actual revenues and other financing sources were \$96.204 million, which was \$3.252 million higher than the final budgeted revenues. The variance between the original budgeted revenue, final budgeted revenues and actual revenues is in the area of advances in which were not budgeted in the final budgeted revenues.

General fund original appropriations and other financing uses of \$103.483 million were decreased to \$98.844 million in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2003 totaled \$101.861 million, which was \$3.017 million more than final budgeted appropriations, primarily because the amount of the advances to other funds which was \$4.572 million.

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

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the District had \$92.422 million invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress (CIP). Of this total, \$92.218 million was reported in governmental activities and \$204,000 was reported in business-type activities.

The following table shows fiscal 2003 balances compared to 2002:

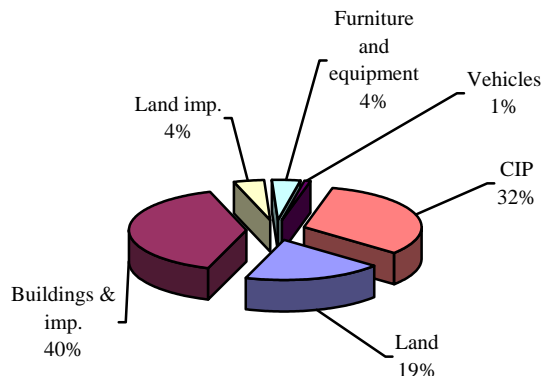
**Capital Assets at June 30
(Net of Depreciation)
(Amounts in 000's)**

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|---------------------------|--------------------------------|------------------|---------------------------------|---------------|------------------|------------------|
| | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> | <u>2003</u> | <u>2002</u> |
| Land | \$ 17,149 | \$ 17,108 | \$ - | \$ - | \$ 17,149 | \$ 17,108 |
| Land improvements | 3,740 | 3,712 | - | - | 3,740 | 3,712 |
| Building and improvements | 37,443 | 28,208 | - | - | 37,443 | 28,208 |
| Furniture and equipment | 3,733 | 1,826 | 204 | 242 | 3,937 | 2,068 |
| Vehicles | 807 | 1,055 | - | - | 807 | 1,055 |
| Construction in progress | <u>29,346</u> | <u>15,652</u> | <u>-</u> | <u>-</u> | <u>29,346</u> | <u>15,652</u> |
| Total | <u>\$ 92,218</u> | <u>\$ 67,561</u> | <u>\$ 204</u> | <u>\$ 242</u> | <u>\$ 92,422</u> | <u>\$ 67,803</u> |

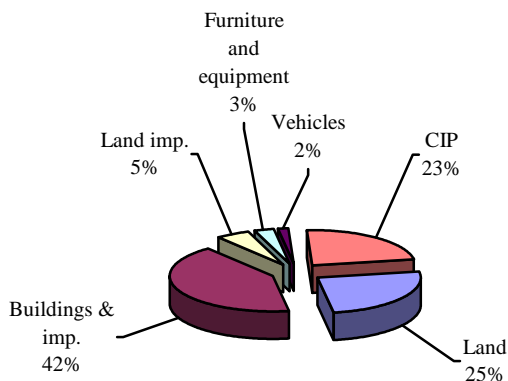
Total additions to capital assets for 2003 were \$32.849 million and disposals were \$5,683. Depreciation expense for fiscal 2003 was \$2.701 million. Overall, capital assets of the District increased \$24.619 million.

The following graphs show the breakdown of total capital assets by category for 2003 and 2002.

Capital Assets - 2003



Capital Assets - 2002



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

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

Debt Administration

At June 30, 2003 the District had \$53.956 million in general obligation bonds, notes and capital lease obligations outstanding. Of this total, \$1.050 million is due within one year and \$52.906 million is due within greater than one year. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year End

| | Governmental Activities 2003 | Governmental Activities 2002 |
|-----------------------------|------------------------------------|------------------------------------|
| General obligation bonds: | | |
| Construction and renovation | \$ 46,680 | \$ 46,809 |
| Notes payable | 6,165 | 6,165 |
| Capital lease obligation | 1,111 | 17 |
| Total | \$ 53,956 | \$ 52,991 |

During fiscal 2001, the District passed a bond issue, providing for facility improvements and additions to the District's schools. The general obligation bonds are scheduled to mature in fiscal year 2024 and bear interest rates ranging from 4.35% to 5.625%.

During fiscal 2002, the District issued a tax anticipation note. The tax anticipation notes are scheduled to mature in fiscal year 2013 and bear interest rates ranging from 3.25% to 5.00%.

During fiscal 2003, the District entered into a capital lease obligation for the purchase of copiers. In prior years, the District entered into capital lease obligations for the purchase of copiers and school buses. The capital lease obligations are scheduled to mature in fiscal year 2008.

Current Financial Related Activities

Declining enrollment has recently joined declining state funding as the District's number one problem. The District lost another 500 pupils in the fiscal 2003-2004 school year. The main reasons for this appear to be students switching to charter schools and people moving out of the District. This is the fourth straight year that enrollment has declined. The total number of students lost in those four years is approximately 1,500. The District receives \$5,097 per pupil in the current state funding formula.

Even if enrollment were not dropping, the amount of the state funding increase would be well below historical levels. The state's own financial problems have had a very negative effect on school districts throughout Ohio. The general fund will show a decrease in state funding for the first time in many years in fiscal year 2004.

The District had projected the need for a levy in 2003 before the above problems were evident. Obviously, a decrease in state funding made the need even more critical. The levy (7.9 mills) was defeated on November 4, 2003 and will be attempted again on March 2, 2004.

Shortly after the November election the District was informed that the inter-county personal property tax collection was down by about \$900,000 from the previous year. The next month the county auditor announced that residential real estate properties in the District were up by 16% during the last three-year period. Although this will generate an

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

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

additional \$300,000 per year in local revenue, the District will eventually lose \$1,500,000 in state funding because of the valuation increase. This is because the state funding formula assumes the District is receiving more local revenue even though the local amount is limited by House Bill 920. This is often referred to as "phantom revenue" in Ohio school finance circles.

There is some good news. The \$176 million school facility projects are proceeding on time and on budget. The fiscal year 2004 budget was balanced, although it meant reducing 100 teaching positions and 13 administrative positions. Also, because of the increased real estate valuation, the same 7.9 mill levy will generate an additional \$500,000 per year if passed.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. James Reinhard, Treasurer, Canton City School District, 617 McKinley Avenue SW, Canton, Ohio 44707.

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2003
(AMOUNTS IN 000's)

| | Governmental Activities | Business-Type Activities | Total |
|--|------------------------------------|-------------------------------------|--------------|
| Assets: | | | |
| Equity in pooled cash and investments | \$ 82,663 | \$ 2,910 | \$ 85,573 |
| Cash in segregated accounts | 818 | - | 818 |
| Receivables: | | | |
| Taxes | 35,507 | - | 35,507 |
| Accounts | 320 | - | 320 |
| Intergovernmental | 63,497 | 408 | 63,905 |
| Accrued interest | 314 | - | 314 |
| Prepayments | 127 | - | 127 |
| Deferred charges | 98 | - | 98 |
| Materials and supplies inventory | 182 | 73 | 255 |
| Capital assets: | | | |
| Land and construction in progress | 46,495 | - | 46,495 |
| Depreciable capital assets, net | 45,723 | 204 | 45,927 |
| Total capital assets | 92,218 | 204 | 92,422 |
| | | | |
| Total assets | 275,744 | 3,595 | 279,339 |
| | | | |
| Liabilities: | | | |
| Accounts payable | 785 | 27 | 812 |
| Contracts payable | 6,052 | - | 6,052 |
| Retainage payable | 818 | - | 818 |
| Accrued wages and benefits | 10,959 | 104 | 11,063 |
| Pension obligation payable | 2,704 | 232 | 2,936 |
| Intergovernmental payable | 209 | 4 | 213 |
| Deferred revenue | 27,924 | - | 27,924 |
| Unamortized premium on notes | 101 | - | 101 |
| Accrued interest payable | 133 | - | 133 |
| Claims payable | 1,702 | - | 1,702 |
| Long-term liabilities: | | | |
| Due within one year | 1,964 | 5 | 1,969 |
| Due in more than one year | 56,889 | 73 | 56,962 |
| | | | |
| Total liabilities | 110,240 | 445 | 110,685 |
| | | | |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | 91,106 | 204 | 91,310 |
| Restricted for: | | | |
| Capital projects | 73,242 | - | 73,242 |
| Debt service | 5,999 | - | 5,999 |
| Other purposes | 2,309 | - | 2,309 |
| Unrestricted (deficit) | (7,152) | 2,946 | (4,206) |
| | | | |
| Total net assets | \$ 165,504 | \$ 3,150 | \$ 168,654 |

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, 2003
(AMOUNTS IN 000's)

| | Expenses | Program Revenues | | |
|---|------------|--------------------------------|------------------------------------|----------------------------------|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 45,005 | \$ 2,404 | \$ 8,205 | \$ - |
| Special | 16,944 | - | 6,276 | - |
| Vocational | 2,890 | 29 | 89 | - |
| Other | 6,819 | 71 | 1,110 | - |
| Support services: | | | | |
| Pupil. | 8,845 | 317 | 2,043 | - |
| Instructional staff | 7,258 | 68 | 5,009 | - |
| Board of education | 3 | - | - | - |
| Administration. | 10,742 | 98 | 1,513 | - |
| Fiscal. | 1,454 | - | 166 | - |
| Business. | 1,028 | - | - | - |
| Operations and maintenance | 16,121 | 198 | 731 | 1,535 |
| Pupil transportation. | 2,997 | - | 66 | - |
| Central | 3,735 | - | 537 | 356 |
| Operation of non-instructional services | 1,261 | 197 | 465 | - |
| Extracurricular activities. | 2,040 | 572 | 170 | - |
| Intergovernmental | 554 | - | 619 | - |
| Interest and fiscal charges | 2,055 | - | - | - |
| Total governmental activities | 129,751 | 3,954 | 26,999 | 1,891 |
| Business-Type Activities: | | | | |
| Food service. | 4,216 | 719 | 3,365 | - |
| Adult education. | 1,271 | 733 | 432 | - |
| Total business-type activities | 5,487 | 1,452 | 3,797 | - |
| Totals | \$ 135,238 | \$ 5,406 | \$ 30,796 | \$ 1,891 |

General Revenues:

Property taxes levied for:

- General purposes
- Debt service.
- Capital outlay.
- Grants and entitlements not restricted to specific programs
- Investment earnings
- Gain on disposal of capital assets
- Miscellaneous

Total general revenues

Transfers

Total general revenues and transfers.

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**

| Governmental Activities | Business-Type Activities | Total |
|------------------------------------|-------------------------------------|--------------|
| \$ (34,396) | \$ - | \$ (34,396) |
| (10,668) | - | (10,668) |
| (2,772) | - | (2,772) |
| (5,638) | - | (5,638) |
| (6,485) | - | (6,485) |
| (2,181) | - | (2,181) |
| (3) | - | (3) |
| (9,131) | - | (9,131) |
| (1,288) | - | (1,288) |
| (1,028) | - | (1,028) |
| (13,657) | - | (13,657) |
| (2,931) | - | (2,931) |
| (2,842) | - | (2,842) |
| (599) | - | (599) |
| (1,298) | - | (1,298) |
| 65 | - | 65 |
| (2,055) | - | (2,055) |
| (96,907) | - | (96,907) |
| - | (132) | (132) |
| - | (106) | (106) |
| - | (238) | (238) |
| (96,907) | (238) | (97,145) |
| 28,049 | - | 28,049 |
| 2,848 | - | 2,848 |
| 1,081 | - | 1,081 |
| 58,908 | - | 58,908 |
| 2,696 | 41 | 2,737 |
| 1 | - | 1 |
| 751 | - | 751 |
| 94,334 | 41 | 94,375 |
| (2) | 2 | - |
| 94,332 | 43 | 94,375 |
| (2,575) | (195) | (2,770) |
| 168,079 | 3,345 | 171,424 |
| \$ 165,504 | \$ 3,150 | \$ 168,654 |

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003
(AMOUNTS IN 000's)

| | <u>General</u> | <u>Debt Service</u> | <u>Classroom Facilities</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|------------------|-------------------------|---------------------------------|---|---|
| Assets: | | | | | |
| Equity in pooled cash and investments | \$ 1,976 | \$ 5,432 | \$ 64,769 | \$ 6,587 | \$ 78,764 |
| Cash in segregated accounts | - | - | 818 | - | 818 |
| Receivables: | | | | | |
| Taxes | 31,169 | 2,964 | - | 1,375 | 35,508 |
| Accounts | 320 | - | - | - | 320 |
| Intergovernmental | 540 | - | 58,102 | 4,855 | 63,497 |
| Accrued interest | 46 | 27 | 241 | - | 314 |
| Interfund loans | 1,136 | - | - | - | 1,136 |
| Prepayments | 127 | - | - | - | 127 |
| Materials and supplies inventory | 182 | - | - | - | 182 |
| Restricted assets: | | | | | |
| Equity in pooled cash and investments | 395 | - | - | - | 395 |
| Total assets | \$ 35,891 | \$ 8,423 | \$ 123,930 | \$ 12,817 | \$ 181,061 |
| Liabilities: | | | | | |
| Accounts payable | \$ 319 | \$ - | \$ - | \$ 467 | \$ 786 |
| Contracts payable | - | - | 5,968 | 84 | 6,052 |
| Retainage payable | - | - | 818 | - | 818 |
| Accrued wages and benefits | 9,079 | - | - | 1,878 | 10,957 |
| Compensated absences payable | 931 | - | - | 126 | 1,057 |
| Pension obligation payable | 1,472 | - | - | 282 | 1,754 |
| Intergovernmental payable | 189 | - | - | 20 | 209 |
| Interfund loans payable | - | - | - | 1,136 | 1,136 |
| Deferred revenue | 29,706 | 2,777 | 58,343 | 4,618 | 95,444 |
| Total liabilities | 41,696 | 2,777 | 65,129 | 8,611 | 118,213 |
| Fund Balances: | | | | | |
| Reserved for encumbrances | 702 | - | 24,776 | 1,102 | 26,580 |
| Reserved for BWC refunds | 293 | - | - | - | 293 |
| Reserved for materials and supplies inventory | 182 | - | - | - | 182 |
| Reserved for debt service | - | 5,432 | - | - | 5,432 |
| Reserved for property tax unavailable for appropriation | 1,524 | 214 | - | 94 | 1,832 |
| Reserved for prepayments | 127 | - | - | - | 127 |
| Reserved for school bus purchases | 102 | - | - | - | 102 |
| Unreserved, undesignated, reported in: | | | | | |
| General fund | (8,735) | - | - | - | (8,735) |
| Special revenue funds | - | - | - | 1,091 | 1,091 |
| Capital projects funds | - | - | 34,025 | 1,919 | 35,944 |
| Total fund balances (deficit) | (5,805) | 5,646 | 58,801 | 4,206 | 62,848 |
| Total liabilities and fund balances (deficit) | \$ 35,891 | \$ 8,423 | \$ 123,930 | \$ 12,817 | \$ 181,061 |

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, 2003
(AMOUNTS IN 000's)

| | | |
|--|----------|-------------------|
| Total governmental fund balances | | \$ 62,848 |
| <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. | | 92,218 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Taxes | \$ 5,986 | |
| Accrued interest | 314 | |
| Intergovernmental revenue | 61,220 | |
| Total | | 67,520 |
| Unamortized deferred charges are not recognized in the funds. | | 98 |
| Unamortized premiums on debt issuances are not recognized in the funds. | | (101) |
| Internal service funds are used by management to charge the costs of insurance, workers' compensation and warehouse services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. | | 1,795 |
| Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds. | | |
| General obligation bonds | 46,680 | |
| Compensated absences | 3,837 | |
| Capital lease obligations | 1,111 | |
| Pension obligation payable | 948 | |
| Notes payable | 6,165 | |
| Accrued interest payable | 133 | |
| Total | | (58,874) |
| Net assets of governmental activities | | \$ 165,504 |

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, 2003
(AMOUNTS IN 000's)

| | <u>General</u> | <u>Debt Service</u> | <u>Classroom Facilities</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------|-------------------------|---------------------------------|---|---|
| Revenues: | | | | | |
| From local sources: | | | | | |
| Taxes | \$ 27,231 | \$ 2,935 | \$ - | \$ 1,266 | \$ 31,432 |
| Tuition | 1,620 | - | - | 12 | 1,632 |
| Earnings on investments | 473 | 219 | 1,741 | 184 | 2,617 |
| Extracurricular | 14 | - | - | 815 | 829 |
| Other local revenues | 1,955 | 1 | - | 608 | 2,564 |
| Intergovernmental - Intermediate sources . . . | 16 | - | - | 924 | 940 |
| Intergovernmental - State | 58,459 | 298 | 29,973 | 10,737 | 99,467 |
| Intergovernmental - Federal | 1,470 | - | - | 12,263 | 13,733 |
| Total revenue | 91,238 | 3,453 | 31,714 | 26,809 | 153,214 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 37,297 | - | - | 6,878 | 44,175 |
| Special | 12,261 | - | - | 4,593 | 16,854 |
| Vocational | 2,842 | - | - | 91 | 2,933 |
| Other | 5,656 | - | - | 1,166 | 6,822 |
| Support Services: | | | | | |
| Pupil | 6,613 | - | - | 2,258 | 8,871 |
| Instructional staff | 2,548 | - | - | 4,580 | 7,128 |
| Board of education | 3 | - | - | - | 3 |
| Administration | 9,174 | - | - | 1,378 | 10,552 |
| Fiscal | 1,322 | - | - | 136 | 1,458 |
| Business | 1,009 | - | - | - | 1,009 |
| Operations and maintenance | 9,206 | - | - | 1,241 | 10,447 |
| Pupil transportation | 2,605 | - | - | 125 | 2,730 |
| Central | 2,827 | - | - | 947 | 3,774 |
| Operation of non-instructional services . . . | 626 | - | - | 370 | 996 |
| Extracurricular activities | 1,249 | - | - | 719 | 1,968 |
| Facilities acquisition and construction . . . | 171 | - | 26,154 | 5,299 | 31,624 |
| Capital outlay | 1,183 | - | - | - | 1,183 |
| Intergovernmental pass-through | - | - | - | 544 | 544 |
| Debt service: | | | | | |
| Principal retirement | 89 | 280 | - | - | 369 |
| Interest and fiscal charges | 39 | 1,865 | - | - | 1,904 |
| Total expenditures | 96,720 | 2,145 | 26,154 | 30,325 | 155,344 |
| Excess of revenues over (under) expenditures . | (5,482) | 1,308 | 5,560 | (3,516) | (2,130) |
| Other financing sources (uses): | | | | | |
| Transfers in | - | - | - | 122 | 122 |
| Transfers (out) | (124) | - | - | - | (124) |
| Proceeds of capital lease transaction | 1,183 | - | - | - | 1,183 |
| Proceeds from sale of capital assets | 26 | - | - | - | 26 |
| Total other financing sources (uses) | 1,085 | - | - | 122 | 1,207 |
| Net change in fund balances | (4,397) | 1,308 | 5,560 | (3,394) | (923) |
| Fund balances (deficit) at beginning of year . | (1,464) | 4,338 | 53,241 | 7,600 | 63,715 |
| Increase in reserve for inventory | 56 | - | - | - | 56 |
| Fund balances (deficit) at end of year | \$ (5,805) | \$ 5,646 | \$ 58,801 | \$ 4,206 | \$ 62,848 |

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, 2003
(AMOUNTS IN 000's)

| | | |
|---|-----------|----------------|
| Net change in fund balances - total governmental funds | \$ | (923) |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period. | | 24,681 |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. | | (25) |
| Premiums on debt issuances are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities. | | (101) |
| Deferred charges are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities. | | 98 |
| Proceeds of capital lease transactions are recorded as revenues in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets. | | (1,183) |
| Governmental funds report expenditures for inventory when purchased, however, in the statement of activities, they are reported as expenditures when consumed. | | 56 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | (26,131) |
| Repayment of bond and capital lease obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | | 369 |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | | (148) |
| Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | 565 |
| The internal service funds used by management to charge the costs of insurance, workers' compensation and warehouse services to individual funds are not reported in the statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities. | | 167 |
| | | 167 |
| Change in net assets of governmental activities | \$ | (2,575) |

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, 2003
(AMOUNTS IN 000's)

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Over (Under) |
|---|-------------------------|-----------------|-----------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes | \$ 27,024 | \$ 27,061 | \$ 26,296 | \$ (765) |
| Tuition | 1,666 | 1,683 | 1,636 | (47) |
| Earnings on investments | 440 | 474 | 462 | (12) |
| Extracurricular | - | - | 14 | 14 |
| Other local revenues | 1,993 | 1,802 | 1,810 | 8 |
| Intergovernmental - Intermediate sources | 15 | 16 | 16 | - |
| Intergovernmental - State | 60,508 | 60,113 | 58,459 | (1,654) |
| Intergovernmental - Federal | 1,414 | 1,403 | 1,381 | (22) |
| Total revenue | 93,060 | 92,552 | 90,074 | (2,478) |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 38,256 | 38,413 | 37,733 | 680 |
| Special | 11,305 | 11,319 | 12,302 | (983) |
| Vocational | 3,050 | 3,050 | 3,009 | 41 |
| Other | 3,322 | 5,488 | 5,650 | (162) |
| Support Services: | | | | |
| Pupil | 7,305 | 7,428 | 6,741 | 687 |
| Instructional staff | 2,724 | 2,644 | 2,554 | 90 |
| Board of education | 21 | 21 | 17 | 4 |
| Administration | 8,825 | 8,874 | 9,277 | (403) |
| Fiscal | 1,443 | 1,443 | 1,350 | 93 |
| Business | 1,136 | 1,085 | 1,012 | 73 |
| Operations and maintenance | 9,328 | 9,329 | 9,338 | (9) |
| Pupil transportation | 2,646 | 2,757 | 2,903 | (146) |
| Central | 4,282 | 4,232 | 3,168 | 1,064 |
| Operation of non-instructional services | 719 | 720 | 615 | 105 |
| Extracurricular activities | 1,174 | 1,177 | 1,228 | (51) |
| Facilities acquisition and construction | 435 | 432 | 186 | 246 |
| Total expenditures | 95,971 | 98,412 | 97,083 | 1,329 |
| Excess of revenues over (under) expenditures | (2,911) | (5,860) | (7,009) | (1,149) |
| Other financing sources (uses): | | | | |
| Refund of prior year expenditures | 200 | 200 | 98 | (102) |
| Refund of prior year receipt | (230) | (230) | (40) | 190 |
| Transfers in | 200 | 200 | 42 | (158) |
| Transfers (out) | (200) | (202) | (166) | 36 |
| Advances in | 7,982 | - | 5,964 | 5,964 |
| Advances (out) | (7,082) | - | (4,572) | (4,572) |
| Proceeds from sale of capital assets | - | - | 26 | 26 |
| Total other financing sources (uses) | 870 | (32) | 1,352 | 1,384 |
| Net change in fund balance | (2,041) | (5,892) | (5,657) | 235 |
| Fund balance at beginning of year | 5,029 | 5,029 | 5,029 | - |
| Prior year encumbrances appropriated | 2,045 | 2,045 | 2,045 | - |
| Fund balance (deficit) at end of year | \$ 5,033 | \$ 1,182 | \$ 1,417 | \$ 235 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2003
(AMOUNTS IN 000's)

| | Business-Type Activities - Nonmajor Enterprise Funds | Governmental Activities - Internal Service Funds |
|---|---|---|
| | | |
| Assets: | | |
| Current assets: | | |
| Equity in pooled cash and investments. | \$ 2,910 | \$ 3,504 |
| Receivables: | | |
| Intergovernmental | 408 | - |
| Materials and supplies inventory | 73 | - |
| | | |
| Total current assets | 3,391 | 3,504 |
| | | |
| Noncurrent assets: | | |
| Depreciable capital assets, net | 204 | - |
| | | |
| Total assets | 3,595 | 3,504 |
| | | |
| Liabilities: | | |
| Accounts payable. | 27 | - |
| Accrued wages and benefits | 104 | 2 |
| Compensated absences payable. | 5 | 3 |
| Pension obligation payable. | 232 | 2 |
| Intergovernmental payable | 4 | - |
| Claims payable | - | 1,702 |
| | | |
| Total current liabilities | 372 | 1,709 |
| | | |
| Long-term liabilities: | | |
| Compensated absences payable. | 73 | - |
| | | |
| Total liabilities | 445 | 1,709 |
| | | |
| Net assets: | | |
| Invested in capital assets, net of related debt | 204 | - |
| Unrestricted. | 2,946 | 1,795 |
| | | |
| Total net assets | \$ 3,150 | \$ 1,795 |
| | | |

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, 2003
(AMOUNTS IN 000's)

| | Business-Type Activities - Nonmajor Enterprise Funds | Governmental Activities - Internal Service Funds |
|--|---|---|
| Operating revenues: | | |
| Tuition and fees. | \$ 733 | \$ 110 |
| Sales/charges for services. | 719 | 11,614 |
| Other | - | - |
| | 1,452 | 11,724 |
| Operating expenses: | | |
| Personal services. | 2,963 | 60 |
| Purchased services. | 290 | 726 |
| Materials and supplies | 2,023 | 127 |
| Other | 155 | - |
| Claims. | - | 10,739 |
| Depreciation | 56 | - |
| | 5,487 | 11,652 |
| Total operating revenues | 1,452 | 11,724 |
| Total operating expenses. | 5,487 | 11,652 |
| Operating income (loss) | (4,035) | 72 |
| Nonoperating revenues: | | |
| Federal donated commodities | 252 | - |
| Interest revenue | 41 | - |
| Grants and subsidies. | 3,545 | 95 |
| | 3,838 | 95 |
| Total nonoperating revenues. | 3,838 | 95 |
| Income (loss) before transfers | (197) | 167 |
| Transfers in | 2 | - |
| | (195) | 167 |
| Change in net assets | (195) | 167 |
| Net assets at beginning of year | 3,345 | 1,628 |
| Net assets at end of year. | \$ 3,150 | \$ 1,795 |

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, 2003
(AMOUNTS IN 000's)

| | Business-Type Activities - Nonmajor Enterprise Funds | Governmental Activities - Internal Service Funds |
|---|---|---|
| | Funds | Service Funds |
| Cash flows from operating activities: | | |
| Cash received from tuition and fees | \$ 733 | \$ 110 |
| Cash received from sales/charges for services. | 719 | 11,611 |
| Cash payments for personal services. | (2,932) | (59) |
| Cash payments for contractual services | (290) | (725) |
| Cash payments for materials and supplies | (1,780) | (127) |
| Cash payments for claims | - | (10,781) |
| Cash payments for other expenses | (155) | - |
| | (3,705) | 29 |
| Net cash provided by (used in) operating activities | (3,705) | 29 |
| Cash flows from noncapital financing activities: | | |
| Cash received from grants and subsidies. | 3,138 | - |
| Cash received from transfers in | 2 | - |
| Cash received from interfund loans | 2,097 | - |
| Cash used in repayment of interfund loans. | (2,097) | - |
| | 3,140 | - |
| Net cash provided by noncapital financing activities. | 3,140 | - |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | (18) | - |
| | (18) | - |
| Net cash used in capital and related financing activities. | (18) | - |
| Cash flows from investing activities: | | |
| Interest received | 41 | 95 |
| | 41 | 95 |
| Net cash provided by investing activities | 41 | 95 |
| Net increase (decrease) in cash and cash equivalents . . | (542) | 124 |
| Cash and cash equivalents at beginning of year . . . | 3,452 | 3,380 |
| Cash and cash equivalents at end of year. | \$ 2,910 | \$ 3,504 |

(Continued)

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(AMOUNTS IN 000's)

| | Business-Type Activities - Nonmajor Enterprise Funds | Governmental Activities - Internal Service Funds |
|--|---|---|
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | |
| Operating income (loss) | \$ (4,035) | \$ 72 |
| Adjustments: | | |
| Depreciation. | 56 | - |
| Federal donated commodities | 252 | - |
| Changes in assets and liabilities: | | |
| Increase in materials and supplies inventory | (28) | - |
| Increase in accounts payable | 19 | - |
| Decrease in accrued wages and benefits. | (10) | (1) |
| Decrease in intergovernmental payable | (1) | - |
| Increase in compensated absences payable | 2 | 3 |
| Increase in pension obligation payable | 40 | - |
| Decrease in deferred revenue | - | (2) |
| Decrease in claims payable | - | (43) |
| | \$ (3,705) | \$ 29 |
| Net cash provided by (used in) operating activities | \$ (3,705) | \$ 29 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2003
 (AMOUNTS IN 000's)

| | Private Purpose Trust | |
|--|----------------------------------|---------------|
| | Scholarship | Agency |
| Assets: | | |
| Equity in pooled cash and investments | \$ 85 | \$ 225 |
| Receivables: | | |
| Accounts. | - | 1 |
| | 85 | 226 |
| Total assets | | |
| Liabilities: | | |
| Accounts payable. | - | 11 |
| Due to students | - | 215 |
| | - | 226 |
| Total liabilities | | \$ 226 |
| Net Assets: | | |
| Held in trust for scholarships. | 85 | |
| Total net assets. | \$ 85 | |

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, 2003
 (AMOUNTS IN 000's)

| | Private Purpose Trust | |
|--|----------------------------------|----|
| | Scholarship | |
| Additions: | | |
| Interest | \$ | 1 |
| Gifts and contributions. | | 40 |
| | | 40 |
| Total additions. | | 41 |
| Deductions: | | |
| Scholarships awarded | | 40 |
| | | 40 |
| Change in net assets | | 1 |
| Net assets at beginning of year. | | 84 |
| | | 84 |
| Net assets at end of year | \$ | 85 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Canton City School District (the "District") operates under a locally elected five-member board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. The board oversees the operations of the District's twenty-four instructional/support facilities.

The District ranks as the 12th largest by enrollment among the 740 public and community school districts in the State. The District employs 712 non-certified and 1,060 certified employees to provide services to approximately 12,258 students and community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". 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 this criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (the primary government).

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.

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

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

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

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 and principal and interest and certain long-term obligations from governmental resources when the government is obligated in some manner for payment. It is also used to account for the accumulation of resources and payment of general obligation bonds and notes payable.

Classroom Facilities - 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.

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 and trust funds; 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.

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 preschoolers, youths and adults living within the community.

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

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

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

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 employee health benefits self-insurance, 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.

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.

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

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

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

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.

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.

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

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year are reported in the Statement of Revenues, Expenses and Changes in Net Assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as donated commodities revenue.

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds, except agency funds. The specific timetable for fiscal year 2003 is as follow:

1. Prior to January 15, the Superintendent and Treasury submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Stark County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the final budgeted amount in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2003.

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

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

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

4. By July 1, the Annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year). Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present the general fund's budgetary statement comparison at the fund and function level.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated, increased or decreased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2003.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements may not legally exceed budgeted appropriations at the fund level.

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end (not already recorded in accounts payable) are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

F. Cash and Investments

To improve cash management, cash received by the District 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 2003, investments were limited to federal agency securities, repurchase agreements, U. S. Government money market mutual funds, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

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

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

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

The District has invested funds in STAR Ohio during fiscal 2003. 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. Investment in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

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 2003 amounted to \$473,000 which includes \$337,000 assigned from other District funds.

For purposes of the statement of cash flows and for presentation on the statement of net assets, 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 Treasurer's investment account at fiscal year-end is provided in Note 4.

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 are stated at the lower of cost or market. 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 an expenditure in the governmental fund types 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 are 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 fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000 for its general capital assets. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

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

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

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

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> | <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 |

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 severance 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 severance 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 severance 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 severance payments has been calculated using pay rates in effect at June 30, 2003, 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.

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

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

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

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 future retirement 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.

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, debt service, property taxes unavailable for appropriation, Bureau of Workers' Compensation (BWC) refunds and school bus purchases. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

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.

The District applies restricted resources 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.

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

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

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

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.

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. Restricted assets include BWC refunds that are restricted in use by state statute for specifically defined expenditures and for monies from the State of Ohio that are restricted for school bus purchases. See Note 17 for details.

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 for the self-insurance, 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.

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

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

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

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. Neither type of transaction occurred during fiscal 2003.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principle

For fiscal year 2003, the District has implemented GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences". At June 30, 2002, there was no effect on net assets as a result of implementing GASB Statement 41.

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

B. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits (amounts in 000's):

| | |
|-------------------------------------|----------|
| <u>Major Funds</u> | |
| General | \$ 5,805 |
| <u>Nonmajor Funds</u> | |
| Post Secondary Vocational Education | 3 |
| Public School Preschool | 96 |
| Disadvantaged Pupil Impact Aid | 911 |
| Career Education | 2 |
| Alternative Schools | 25 |
| Vocational Education | 155 |
| Drug-Free Schools | 21 |
| Preschool Grants for Handicapped | 17 |
| F.E.R.P. | 31 |
| Classroom Reduction | 13 |
| Energy Conservation | 49 |

These funds complied with Ohio state law, which does not permit cash basis deficits. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities. These deficits 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, 2003**

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

Monies held by the District into three categories.

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

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

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

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

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

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

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

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

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

8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Cash in Segregated Accounts: At fiscal year-end, the District had \$818,000 in depository accounts for retainage obligations related to various construction projects undertaken by the District. The balance in these depository accounts are included in the amount of "deposits" reported below.

Cash on Hand: At fiscal year-end, the District had \$10,000 in undeposited cash on hand, which is included on the balance sheet and statement of net assets as part of "Equity in Pooled Cash and Investments".

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

Deposits: At fiscal year-end, the carrying amount of the District's deposits was \$11.240 million and the bank balance was \$11.379 million. Of the bank balance:

1. \$309,000 was covered by federal depository insurance; and
2. \$11.070 million was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposits of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

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

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

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

Investments: Investments are categorized to give an indication of the level of custodial credit risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. STAR Ohio and U.S. Government money market mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form. The following is a breakdown of the District's investment (Amounts in 000's):

| | Category 3 | Carrying Amount | Fair Value |
|---|---------------|--------------------|---------------|
| Repurchase agreements | \$ 5,595 | \$ 5,595 | \$ 5,595 |
| Federal agency securities | 42,145 | 42,145 | 42,145 |
| Total | \$ 47,740 | | |
| Investment in STAR Ohio | | 26,651 | 26,651 |
| U.S. Government money market mutual funds | | 1,060 | 1,060 |
| Total investments | | \$ 75,451 | \$ 75,451 |

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows (Amounts in 000's):

| | Cash and Cash Equivalents/Deposits | Investments |
|---|---------------------------------------|-------------|
| GASB Statement No. 9 | \$ 86,701 | \$ - |
| Investments of the cash management pool: | | |
| Repurchase agreements | (5,595) | 5,595 |
| Investments in STAR Ohio | (26,651) | 26,651 |
| Federal agency securities | (42,145) | 42,145 |
| U.S. Government money market mutual funds | (1,060) | 1,060 |
| Cash on hand | (10) | - |
| GASB Statement No. 3 | \$ 11,240 | \$ 75,451 |

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

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

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund loans receivable/payable consisted of the following at June 30, 2003, as reported on the fund statement:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|-----------------------------|---------------|
| General Fund | Nonmajor Governmental Funds | \$ 1,136 |

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.

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

| | <u>Amount</u> |
|---------------------------------|---------------|
| Transfers from general fund to: | |
| Nonmajor governmental funds | \$ 122 |
| Transfers from general fund to: | |
| Nonmajor enterprise funds | 2 |

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.

NOTE 6 - PROPERTY TAXES

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

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

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

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

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

NOTE 6 - PROPERTY TAXES - (Continued)

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

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, 2003, are available to finance fiscal year 2003 operations. The amount available as an advance at June 30, 2003 was \$1,524,000 in the general fund, \$214,000 in the debt service fund and \$94,000 in the Permanent Improvement capital projects fund (a nonmajor governmental fund). The amount available for advance at June 30, 2002 was \$657,000 in the general fund, \$92,000 in the debt service fund and \$40,000 in the Permanent Improvement capital projects fund (a nonmajor governmental 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, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

The assessed values upon which the fiscal year 2003 taxes were collected are (amounts in 000's):

| | 2002 Second Half Collections | | 2003 First Half Collections | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/Residential and Other Real Estate | \$ 597,013 | 71.70 | \$ 579,963 | 71.77 |
| Public Utility Personal | 43,250 | 5.19 | 44,156 | 5.46 |
| Tangible Personal Property | <u>192,382</u> | <u>23.11</u> | <u>184,005</u> | <u>22.77</u> |
| Total | <u>\$ 832,645</u> | <u>100.00</u> | <u>\$ 808,124</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation: | | | | |
| Operations | \$ 52.20 | | \$ 52.20 | |
| Debt service | 2.50 | | 3.50 | |
| Permanent improvement | 4.50 | | 2.50 | |

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

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

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows (amounts in 000's):

Governmental Activities

| | |
|-------------------------------|------------------|
| Taxes | \$ 35,507 |
| Accounts | 320 |
| Intergovernmental | 63,497 |
| Accrued interest | <u>314</u> |
| Total governmental activities | <u>\$ 99,638</u> |

Business-Type Activities

| | |
|--------------------------------|---------------|
| Accounts | <u>\$ 408</u> |
| Total business-type activities | <u>\$ 408</u> |

Receivables have been disaggregated on the face of the basic finance statements. All receivables are expected to be collected within the subsequent year except for \$58,102,000 of the governmental activities intergovernmental receivable due from the Ohio School Facilities Commission. This intergovernmental receivable will be collected over approximately three years as the District continues various construction projects.

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

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year-ended June 30, 2003, was as follows (amounts in 000's):

| | <u>Balance June 30, 2002</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance June 30, 2003</u> |
|--|----------------------------------|------------------|-------------------|----------------------------------|
| Governmental Activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 17,108 | \$ 65 | \$ (24) | \$ 17,149 |
| Construction in progress | <u>15,652</u> | <u>19,199</u> | <u>(5,505)</u> | <u>29,346</u> |
| Total capital assets, not being depreciated | <u>32,760</u> | <u>19,264</u> | <u>(5,529)</u> | <u>46,495</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 4,722 | 85 | - | 4,807 |
| Building/improvements | 52,478 | 10,896 | - | 63,374 |
| Furniture/equipment | 4,315 | 2,579 | (134) | 6,760 |
| Vehicles | <u>4,638</u> | <u>7</u> | <u>(20)</u> | <u>4,625</u> |
| Total capital assets, being depreciated | <u>66,153</u> | <u>13,567</u> | <u>(154)</u> | <u>79,566</u> |
| Less: accumulated depreciation | | | | |
| Land improvements | (1,010) | (57) | - | (1,067) |
| Building/improvements | (24,270) | (1,661) | - | (25,931) |
| Furniture/equipment | (2,489) | (672) | 134 | (3,027) |
| Vehicles | <u>(3,583)</u> | <u>(255)</u> | <u>20</u> | <u>(3,818)</u> |
| Total accumulated depreciation | <u>(31,352)</u> | <u>(2,645)</u> | <u>154</u> | <u>(33,843)</u> |
| Governmental activities capital assets, net | <u>\$ 67,561</u> | <u>\$ 30,186</u> | <u>\$ (5,529)</u> | <u>\$ 92,218</u> |
| Business-Type Activities | | | | |
| Capital assets, being depreciated: | | | | |
| Furniture/equipment | \$ 777 | \$ 18 | \$ - | \$ 795 |
| Less: accumulated depreciation | <u>(535)</u> | <u>(56)</u> | <u>-</u> | <u>(591)</u> |
| Business-type activities capital assets, net | <u>\$ 242</u> | <u>\$ (38)</u> | <u>\$ -</u> | <u>\$ 204</u> |

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

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

NOTE 8 - CAPITAL ASSETS - (Continued)

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

| | |
|---|-----------------|
| Instruction: | |
| Regular | \$ 1,116 |
| Special | 272 |
| Support Services: | |
| Pupil | 80 |
| Instructional staff | 136 |
| Administration | 252 |
| Operations and maintenance of plant | 168 |
| Pupil transportation | 240 |
| Operation of non-instructional services | 310 |
| Extracurricular activities | <u>71</u> |
| Total depreciation expense | <u>\$ 2,645</u> |

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal 2003, the District entered into a capital lease agreement for copiers. In a prior fiscal year, the District entered into capital lease agreements for the acquisition of a school bus and copier equipment. 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 least 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 have been capitalized in the amount of \$1.263 million. This amount represents the present value of the future minimum lease payments at the time of acquisition.

A corresponding liability is recorded on the statement of net assets. Principal and interest payments in the 2003 fiscal year totaled \$89,000 and \$39,000, respectively. These amounts are reported as debt service payments of the general fund.

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

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

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, 2003 follows (amounts in 000's):

| Year Ending June 30 | Amount |
|---|----------|
| 2004 | \$ 296 |
| 2005 | 290 |
| 2006 | 288 |
| 2007 | 288 |
| 2008 | 168 |
| Total minimum lease payment | 1,330 |
| Less: amount representing interest | (219) |
| Present value of minimum lease payments | \$ 1,111 |

NOTE 10 - LONG-TERM OBLIGATIONS

- A.** During fiscal 2001, the District issued 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 Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2003, the total estimated cost of the Construction Project is \$175.887 million, of which OSFC will pay approximately \$129.181 million.

In conjunction with the 3.7 mills which support the bond issue, the District also passed in fiscal 2001 a 0.8 mill levy to fund land acquisition. Tax revenue from this levy had been reported in the capital projects funds.

This issue is comprised of both current interest bonds, par value \$29.835 million, and capital appreciation bonds, par value \$2.110 million. The interest rates on the current interest bonds range from 4.35% to 5.625%. The capital appreciation bonds mature at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date.

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

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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 | \$ 204 | \$ 425 | 12/1/2005 | 15.29% |
| Capital appreciation bond | 176 | 425 | 12/1/2006 | 15.37% |
| Capital appreciation bond | 150 | 420 | 12/1/2007 | 15.47% |
| 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>\$ 771</u> | <u>\$ 2,110</u> | | |

The present value (as of issue date) reported in the statement of net assets at June 30, 2003 was \$771,000. As of June 30 2003, a total of \$359,000 in accreted interest on the capital appreciation bonds has been included on the statement of net assets.

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

The following is a schedule of activity for fiscal 2003 on the general obligation bonds (Amounts in 000's):

| | <u>Balance June 30, 2002</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance June 30, 2003</u> |
|----------------------------|----------------------------------|------------------|-------------------|----------------------------------|
| Current interest bonds | \$ 29,730 | \$ - | \$ (280) | \$ 29,450 |
| Capital appreciation bonds | <u>979</u> | <u>151</u> | <u>-</u> | <u>1,130</u> |
| Total G.O. bonds | <u>\$ 30,709</u> | <u>\$ 151</u> | <u>\$ (280)</u> | <u>\$ 30,580</u> |

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

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements to maturity for the 2001 series general obligation bonds (amounts in 000's):

| Fiscal Year Ending | Current Interest Bonds | | | Capital Appreciation Bonds | | |
|-----------------------|------------------------|------------------|------------------|----------------------------|-------------|-----------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2004 | \$ 325 | \$ 1,595 | \$ 1,920 | \$ - | \$ - | \$ - |
| 2005 | 375 | 1,580 | 1,955 | - | - | - |
| 2006 | - | 1,571 | 1,571 | 425 | - | 425 |
| 2007 | - | 1,571 | 1,571 | 425 | - | 425 |
| 2008 | - | 1,571 | 1,571 | 420 | - | 420 |
| 2009 - 2013 | 1,335 | 7,759 | 9,094 | 840 | - | 840 |
| 2014 - 2018 | 10,500 | 6,194 | 16,694 | - | - | - |
| 2019 - 2023 | 13,700 | 2,899 | 16,599 | - | - | - |
| 2024 | <u>3,215</u> | <u>90</u> | <u>3,305</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 29,450</u> | <u>\$ 24,830</u> | <u>\$ 54,280</u> | <u>\$ 2,110</u> | <u>\$ -</u> | <u>\$ 2,110</u> |

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

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

- B.** 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 was comprised of two separate issued; 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> | (Amounts in 000's) | | |
|-------------------------------|-----------------------------|-----------------------------|------------------|
| | <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 | - | 140 | 140 |
| | <u>\$ 14,000</u> | <u>\$ 2,100</u> | <u>\$ 16,100</u> |

The QZAB Series 2000 bonds bear no interest and the QZAB Series 2001 bonds required stated annual interest payments. During fiscal 2003, the District made \$1.129 million in sinking fund deposits. Since inception, a total of \$2.246 million in sinking fund deposits have been made by the District to retire the QZAB's 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.

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

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

- C. During fiscal 2002, the District issued \$6.165 million in tax anticipation notes. These notes bear annual interest rate ranging from 3.25% - 5.00% and mature on June 1, 2013. These notes will be retired with future tax revenues of the Permanent Improvement capital projects fund (a nonmajor governmental fund). In accordance with GASB Statement No. 34, these notes are considered long-term since the notes are used for capital acquisition and construction. No principal payments were required to be made in fiscal 2003 and a total of \$247,00 in interest payments were made in fiscal 2003. A summary of the tax anticipation note activity for the fiscal year ended June 30, 2002 follows (amounts in 000's):

| | <u>Principal Outstanding June 30, 2002</u> | <u>Additions</u> | <u>Reductions</u> | <u>Principal Outstanding June 30, 2003</u> |
|------------------------|--|------------------|-------------------|--|
| Tax anticipation notes | \$ 6,165 | \$ - | \$ - | \$ 6,165 |

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

| <u>Fiscal Year Ending</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------|------------------|-----------------|-----------------|
| 2004 | \$ 510 | \$ 234 | \$ 744 |
| 2005 | 535 | 208 | 743 |
| 2006 | 560 | 186 | 746 |
| 2007 | 580 | 167 | 747 |
| 2008 | 600 | 146 | 746 |
| 2009 - 2013 | <u>3,380</u> | <u>351</u> | <u>3,731</u> |
| Total | <u>\$ 6,165</u> | <u>\$ 1,292</u> | <u>\$ 7,457</u> |

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

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

| | Balance | | | Balance | Amounts |
|--|----------------------|------------------|-------------------|----------------------|-----------------|
| | <u>June 30, 2002</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2003</u> | <u>Due in</u> |
| | | | | | <u>One Year</u> |
| Governmental Activities | | | | | |
| Compensated absences payable | \$ 4,672 | \$ 806 | \$ (581) | \$ 4,897 | \$ 914 |
| General obligation bonds payable | 46,809 | 151 | (280) | 46,680 | 325 |
| Notes payable | 6,165 | - | - | 6,165 | 510 |
| Capital lease obligation | <u>17</u> | <u>1,183</u> | <u>(89)</u> | <u>1,111</u> | <u>215</u> |
| Total governmental activities long-term liabilities | <u>\$ 57,663</u> | <u>\$ 2,140</u> | <u>\$ (950)</u> | <u>\$ 58,853</u> | <u>\$ 1,964</u> |
| Business-Type Activities | | | | | |
| Compensated absences | <u>\$ 76</u> | <u>\$ 4</u> | <u>\$ (2)</u> | <u>\$ 78</u> | <u>\$ 5</u> |
| Total business-type activities long-term liabilities | <u>\$ 76</u> | <u>\$ 4</u> | <u>\$ (2)</u> | <u>\$ 78</u> | <u>\$ 5</u> |

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

E. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$31.697 million (including available funds of \$5.646 million) and an unvoted debt margin of \$808,000.

NOTE 11 - 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 25 days. Employees with less than one year of service earn one vacation day per month worked, not to exceed five 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). 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 to a maximum payout of 55 days for certified employees and 50 days for classified employees.

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

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

NOTE 12 - 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 | \$ 1,000 |
| Aggregate | 3,000,000 | 1,000 |
| Building and contents | 217,677,160 | 10,000 |
| Boiler and machinery | 5,000,000 | 5,000 |
| Fleet: | | |
| Comprehensive | 2,000,000 | 250 |
| Collision | 2,000,000 | 250 |
| Umbrella liability | 5,000,000 | 0 |

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reduction in coverage from fiscal year 2002.

B. Health Care Self-Insurance Program

The self-insurance program for health care is administered by NABN and Aultcare. Payments are made to NABN and Aultcare for the actual amount of claims processed, monthly stop-loss premiums, and administrative charges. Operating revenues of the internal service fund consist of charges to other funds for an amount expected to be needed to cover claims and to provide for future catastrophe losses, policy, stop-loss premiums, and other operating expenses. The portion of the charge relating to the cost needed to cover claims is calculated annually based on historical information and trend information.

The claims liability is \$977,000 reported in the internal service fund at June 30, 2003 is based on an estimate provided by the third party administrators and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follow (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> |
|------------------------|------------------------------|--------------------------------|----------------------------|---------------------------|
| 2003 | \$ 834 | \$ 10,494 | \$ (10,351) | \$ 977 |
| 2002 | 819 | 8,695 | (8,680) | 834 |

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

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

NOTE 12 - RISK MANAGEMENT - (Continued)

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> |
|------------------------|------------------------------|--------------------------------|----------------------------|---------------------------|
| 2003 | \$ 911 | \$ 244 | \$ (430) | \$ 725 |
| 2002 | 927 | 278 | (294) | 911 |

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$2.199 million, \$2.146 million, and \$2.030 million, respectively; 43.02% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$1.253 million, represents the unpaid contribution for fiscal year 2003.

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

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

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

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

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

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$8.825 million, \$8.186 million, and \$7.867 million, respectively; 84.46% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$1.371 million, represents the unpaid contribution for fiscal year 2003.

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

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

NOTE 14 - POSTEMPLOYEMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 % of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$630,000 during fiscal 2003.

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

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

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

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$302.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$1.051 million during the 2003 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

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

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

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

Net Change in Fund Balance

| | <u>General Fund</u> |
|---|---------------------|
| Budget basis | \$ (5,657) |
| Net adjustment for revenue accruals | 1,164 |
| Net adjustment for expenditure accruals | (539) |
| Net adjustment for other sources/uses | (267) |
| Adjustment for encumbrances | <u>902</u> |
| GAAP basis | <u>\$ (4,397)</u> |

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is 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, 2003

NOTE 16 - CONTINGENCIES - (Continued)

C. State School Funding Decision

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

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

NOTE 17 - STATUTORY RESERVES

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

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

| | <u>Textbooks/ Instructional Materials</u> | <u>Capital Acquisition</u> | <u>BWC Refunds</u> |
|------------------------------------|---|--------------------------------|------------------------|
| Set-aside cash balance | | | |
| as of June 30, 2002 (Restated) | \$ (630) | \$ (43,236) | \$ 293 |
| Current year set-aside requirement | 1,738 | 1,738 | - |
| Qualifying off-sets | - | (1,213) | - |
| Qualifying disbursements | <u>(1,745)</u> | <u>(1)</u> | <u>-</u> |
| Total | <u>\$ (637)</u> | <u>\$ (42,712)</u> | <u>\$ 293</u> |

Monies representing BWC refunds that were received prior to April 10, 2001, have been shown as a restricted asset and reserved fund balance in the general fund since allowable expenditures are restricted by state statute. The District is still required by state law to maintain the textbook/instructional materials reserve and the capital acquisition reserve.

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

NOTE 17 - STATUTORY RESERVES - (Continued)

The District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbook/instructional materials reserve and this extra amount may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to next fiscal year. During fiscal year 2001, the District issued \$46,706 related to the Ohio School Facilities Commission under taken by the District. Those proceeds may be used to reduce the capital acquisition reserve for future years, therefore the beginning cash balance has been restated at June 30, 2002 to reflect the balance. The negative amount at June 30, 2003 is therefore presented as being carried forward to next fiscal year.

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

A schedule of the governmental fund restricted assets at June 30, 2003 follows (amounts in 000's):

| | |
|--|--------------------------|
| Amount restricted for school bus purchases | \$ 102 |
| Amount restricted for BWC refunds | <u>293</u> |
| Total restricted assets | <u><u>\$ 395</u></u> |

NOTE 18 - CONTRACTUAL COMMITMENTS

As of June 30, 2003, the District entered into various contractual commitments for the OSFC Project described in Note 10.A. A summary of the primary contractual commitments outstanding at June 30, 2003, follows (Amounts in 000's):

| Project | Contractual Cost Estimate | Costs Incurred by June 30 | Remaining Contractual Commitment |
|---------------------------|---------------------------------|---------------------------------|--|
| Allen Elementary School | \$ 7,674 | \$ 4,458 | \$ 3,216 |
| Lehman Middle School | 14,417 | 2,872 | 11,545 |
| Crenshaw Middle School | 7,833 | 801 | 7,032 |
| Gibbs Elementary School | 7,314 | 5,825 | 1,489 |
| Belden Elementary School | 7,785 | 602 | 7,183 |
| McKinley High School | 16,022 | 6,165 | 9,857 |
| Hartford Middle | 6,071 | 440 | 5,631 |
| Lathrop Elementary School | 3,666 | 356 | 3,310 |
| Harter Elementary | 6,739 | 180 | 6,559 |
| Summit Elementary | 7,359 | 158 | 7,201 |
| Youtz Elementary | 3,077 | 121 | 2,956 |
| Claredon Elementary | 6,520 | 40 | 6,480 |
| Souers Middle | 8,161 | 37 | 8,124 |
| McGregor Elementary | 6,991 | 154 | 6,837 |
| Timken High School | <u>10,000</u> | <u>7,708</u> | <u>2,292</u> |
| Totals | <u><u>\$ 119,629</u></u> | <u><u>\$ 29,917</u></u> | <u><u>\$ 89,712</u></u> |

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

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

NOTE 19 - SIGNIFICANT SUBSEQUENT EVENTS

On December 1, 2003, the District made its third sinking fund payment on the QZAB's in the amount of \$994,000 and \$139,000 for eventual retirement of the QZAB Series 2000 and QZAB Series 2001, respectively.

In November of 2003, the voters of the District rejected a \$7.9 mill continuing operating levy. The District will put this levy on the ballot again in March of 2004.

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SUPPLEMENTAL DATA

CANTON CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

| FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE | CFDA NUMBER | PASS-THROUGH GRANT NUMBER | (D) CASH FEDERAL RECEIPTS | OTHER FEDERAL RECEIPTS | (D) CASH FEDERAL DISBURSEMENTS | OTHER FEDERAL DISBURSEMENTS |
|---|----------------|---------------------------------|------------------------------------|------------------------------|---|-----------------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | | | |
| PASSED THROUGH THE | | | | | | |
| OHIO DEPARTMENT OF EDUCATION: | | | | | | |
| Nutrition Cluster: | | | | | | |
| (A) (B) Food Distribution | 10.550 | N/A | \$ - | \$ 252,670 | \$ - | \$ 252,670 |
| (A) (C) School Breakfast Program | 10.553 | 043711-05PU-2002 | 66,738 | | 66,738 | |
| (A) (C) School Breakfast Program | 10.553 | 043711-05PU-2003 | 343,919 | | 343,919 | |
| (A) (C) National School Lunch | 10.555 | 043711-LLP1-2002 | 322 | | 322 | |
| (A) (C) National School Lunch | 10.555 | 043711-LLP1-2003 | 6,024 | | 6,024 | |
| (A) (C) National School Lunch | 10.555 | 043711-LLP4-2002 | 370,033 | | 370,033 | |
| (A) (C) National School Lunch | 10.555 | 043711-LLP4-2003 | 1,717,600 | | 1,717,600 | |
| Total Nutrition Cluster | | | <u>2,504,636</u> | <u>252,670</u> | <u>2,504,636</u> | <u>252,670</u> |
| (C) Child Care Food Program | 10.558 | 043711-21CP-2002 | 3,699 | | 3,699 | |
| (C) Child Care Food Program | 10.558 | 043711-CCMO-2003 | 22,171 | | 22,171 | |
| Total Child Care Food Program | | | <u>25,870</u> | | <u>25,870</u> | |
| Total U.S. Department of Agriculture | | | <u>2,530,506</u> | <u>252,670</u> | <u>2,530,506</u> | <u>252,670</u> |
| U.S. DEPARTMENT OF LABOR | | | | | | |
| PASSED THROUGH THE | | | | | | |
| SERVICE DELIVERY AREA NO. 23: | | | | | | |
| (E) (F) Workforce Investment Act - Youth | 17.259 | N/A | 86 | | - | |
| (E) (F) Workforce Investment Act - Youth | 17.259 | N/A | 78,666 | | 83,427 | |
| (E) (F) Workforce Investment Act - Youth | 17.259 | N/A | 11,979 | | 2,960 | |
| Total Workforce Investment Act - Youth | | | <u>90,731</u> | | <u>86,387</u> | |
| Total U.S. Department of Labor | | | <u>90,731</u> | | <u>86,387</u> | |
| U.S. DEPARTMENT OF ENERGY | | | | | | |
| PASSED THROUGH THE | | | | | | |
| OHIO DEPARTMENT OF DEVELOPMENT: | | | | | | |
| (F) State Energy Program Special Projects | 81.046 | N/A | 303,633 | | 333,021 | |
| Total U.S. Department of Energy and State Energy Program | | | <u>303,633</u> | | <u>333,021</u> | |
| PASSED THROUGH THE | | | | | | |
| OHIO DEPARTMENT OF EDUCATION: | | | | | | |
| (G) Adult Education: State Grant Program | 84.002 | 043711-ABS1-2002 | 55,496 | | 35,694 | |
| (G) Adult Education: State Grant Program | 84.002 | 043711-ABS1-2002C | 100,800 | | 99,883 | |
| Adult Education: State Grant Program | 84.002 | 043711-ABS1-2003 | 104,571 | | 578,171 | |
| Adult Education: State Grant Program | 84.002 | 043711-ABS2-2003 | 32,981 | | 32,981 | |
| Total Adult Education: State Grant Program | | | <u>293,848</u> | | <u>746,729</u> | |
| Title I - Grants to Local Educational Agencies | 84.010 | 043711-C1S1-2001C | - | | 7,937 | |
| (H) Title I - Grants to Local Educational Agencies | 84.010 | 043711-C1S1-2002 | 198,640 | | 451,926 | |
| (H) Title I - Grants to Local Educational Agencies | 84.010 | 043711-C1S1-2003 | 3,515,045 | | 3,324,287 | |
| Title I - Grants to Local Educational Agencies | 84.010 | 043711-C1SK-2003 | 99,000 | | 61,442 | |
| Total Title I | | | <u>3,812,685</u> | | <u>3,845,592</u> | |
| Title I Programs for Neglected and Delinquent Children | 84.013 | 043711-C1SD-2001C | - | | 703 | |
| (I) Title I Programs for Neglected and Delinquent Children | 84.013 | 043711-C1SD-2002 | 19,193 | | 27,114 | |
| (I) Title I Programs for Neglected and Delinquent Children | 84.013 | 043711-C1SD-2003 | 61,574 | | 56,083 | |
| Total Title I Programs for Neglected and Delinquent Children | | | <u>80,767</u> | | <u>83,900</u> | |

CANTON CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

| FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE | CFDA NUMBER | PASS-THROUGH GRANT NUMBER | (D) CASH FEDERAL RECEIPTS | OTHER FEDERAL RECEIPTS | (D) CASH FEDERAL DISBURSEMENTS | OTHER FEDERAL DISBURSEMENTS |
|--|----------------|---------------------------------|------------------------------------|------------------------------|---|-----------------------------------|
| PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION: | | | | | | |
| Title VI-B - Education of the Handicapped Act | 84.027 | 043711-6BSX 2000-P | - | | 2,188 | |
| Title VI-B - Education of the Handicapped Act | 84.027 | 043711-6BST 2002-P | 75,000 | | 89,616 | |
| Title VI-B - Education of the Handicapped Act | 84.027 | 043711-6BII 2002-P | 13,768 | | 13,768 | |
| Title VI-B - Education of the Handicapped Act | 84.027 | 043711-6BSF 2002-P | 145,623 | | 400,127 | |
| Title VI-B - Education of the Handicapped Act | 84.027 | 043711-6BSD 2003-P | 30,000 | | 13,650 | |
| Title VI-B - Education of the Handicapped Act | 84.027 | 043711-6BSF 2003-P | <u>1,197,320</u> | | <u>1,129,192</u> | |
| Total Title VI-B | | | <u>1,461,711</u> | | <u>1,648,541</u> | |
| Special Education: Preschool Grants | 84.173 | 043711-PGS1 2002-P | 17,412 | | 31,514 | |
| Special Education: Preschool Grants | 84.173 | 043711-PGS1 2003-P | <u>92,250</u> | | <u>84,347</u> | |
| Total Special Education: Preschool Grants | | | <u>109,662</u> | | <u>115,861</u> | |
| Total Special Education Cluster | | | <u>1,571,373</u> | | <u>1,764,402</u> | |
| Impact Aid | 84.041 | N/A | <u>32,472</u> | | <u>32,472</u> | |
| Vocational Education | 84.048 | 043711-20A0-2002 | 2,677 | | 23,757 | |
| Vocational Education | 84.048 | 043711-20A5-2002 | 500 | | - | |
| Vocational Education | 84.048 | 043711-20C1-2002 | 101,282 | | 89,925 | |
| Vocational Education | 84.048 | 043711-20C2-2002 | 9,250 | | 2,368 | |
| Vocational Education | 84.048 | 043711-20A5-2003 | 12,750 | | 15,000 | |
| Vocational Education | 84.048 | 043711-20C1-2003 | 276,185 | | 385,687 | |
| Vocational Education | 84.048 | 043711-20C2-2003 | <u>64,243</u> | | <u>69,050</u> | |
| Total Vocational Education | | | <u>466,887</u> | | <u>585,787</u> | |
| Federal Pell Grant Program | 84.063 | N/A | <u>444,882</u> | | <u>444,963</u> | |
| Safe and Drug-Free Schools and Communities: National Program | 84.184L | N/A | 130,817 | | 184,411 | |
| Safe and Drug-Free Schools and Communities: National Program | 84.184C | 043711-T4S1-2003 | <u>10,592</u> | | <u>18,568</u> | |
| Total Safe and Drug-Free Schools | | | <u>141,409</u> | | <u>202,979</u> | |
| Safe and Drug-Free Schools | 84.186 | 043711-DRS1-2001 | - | | 1,083 | |
| Safe and Drug-Free Schools | 84.186 | 043711-DRS1-2002 | 34,239 | | 25,936 | |
| Safe and Drug-Free Schools | 84.186 | 043711-DRS1-2003 | <u>103,776</u> | | <u>101,214</u> | |
| Total Safe and Drug-Free Schools | | | <u>138,015</u> | | <u>128,233</u> | |
| Education for Homeless Children and Youth | 84.196 | 043711-HCS1-2001 | - | | 1,141 | |
| (J) Education for Homeless Children and Youth | 84.196 | 043711-HCS1-2002 | (912) | | 13,225 | |
| Education for Homeless Children and Youth | 84.196 | 043711-HCS1-2002P | 8,829 | | 12,613 | |
| (J) Education for Homeless Children and Youth | 84.196 | 043711-HCS1-2003 | <u>67,720</u> | | <u>53,327</u> | |
| Total Safe and Drug-Free Schools | | | <u>75,637</u> | | <u>80,306</u> | |
| Even Start: State Educational Agencies | 84.213 | 043711-EVS1-2002 | 117,397 | | 125,442 | |
| Even Start: State Educational Agencies | 84.213 | 043711-EVS2-2003 | <u>151,462</u> | | <u>129,920</u> | |
| Total Even Start: State Educational Agencies | | | <u>268,859</u> | | <u>255,362</u> | |
| Fund for the Improvement of Education | 84.215 | 043711-PIS1-2002 | - | | 1,570 | |
| Goals 2000 | 84.276 | 043711-G2S1-2001 | 12,272 | | 24,785 | |
| (K) Goals 2000 | 84.276 | 043711-G2S2-2001 | (651) | | 5,367 | |
| Goals 2000 | 84.276 | 043711-G2SP-2001 | - | | 68 | |
| (K) Goals 2000 | 84.276 | 043711-G2S5-2001 | (558) | | 18,000 | |
| Goals 2000 | 84.276 | 043711-G2S9-2001 | <u>10,283</u> | | <u>20,283</u> | |
| Total Goals 2000 | | | <u>21,346</u> | | <u>68,503</u> | |
| Eisenhower Professional Development | 84.281 | 043711-MSS1-2001 | - | | 4,062 | |
| Eisenhower Professional Development | 84.281 | 043711-MSS1-2002 | <u>15,140</u> | | <u>33,153</u> | |
| Total Eisenhower Professional Development | | | <u>15,140</u> | | <u>37,215</u> | |

CANTON CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)

| FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE | CFDA NUMBER | PASS-THROUGH GRANT NUMBER | (D) CASH FEDERAL RECEIPTS | OTHER FEDERAL RECEIPTS | (D) CASH FEDERAL DISBURSEMENTS | OTHER FEDERAL DISBURSEMENTS |
|--|----------------|---------------------------------|------------------------------------|------------------------------|---|-----------------------------------|
| U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION: | | | | | | |
| Twenty-First Century Community Learning Centers | 84.287 | 043711-T1S1-2003 | 150,620 | | 122,518 | |
| Twenty-First Century Community Learning Centers | 84.287A | N/A | 315,876 | | 226,269 | |
| Twenty-First Century Community Learning Centers | 84.287A | N/A | 403,699 | | 424,976 | |
| Total Twenty-First Century Community Learning Centers | | | <u>870,195</u> | | <u>773,763</u> | |
| (K) Innovative Educational Program Strategies | 84.298 | 043711-C2S1-2000 | (22) | | - | |
| Innovative Educational Program Strategies | 84.298 | 043711-C2S1-2001 | - | | 2,267 | |
| (L) Innovative Educational Program Strategies | 84.298 | 043711-C2S1-2002 | (3,783) | | 8,050 | |
| (L) Innovative Educational Program Strategies | 84.298 | 043711-C2S1-2003 | 102,133 | | 100,316 | |
| Total Innovative Educational Program Strategies | | | <u>98,328</u> | | <u>110,633</u> | |
| Technology Literacy Challenge | 84.318 | 043711-TJS1-2003 | 129,093 | | 122,729 | |
| Special Education: State Program Improvement Grants for Children with Disabilities | 84.323 | 043711-STS1-2002 | 22,500 | | 2,506 | |
| Advanced Placement Program | 84.330 | 043711-AVS1-2003 | 1,250 | | 1,250 | |
| Comprehensive School Reform Demonstration | 84.332 | 043711-RFS1-2002 | 68,249 | | 52,187 | |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 84.334 | N/A | 393,796 | | 323,038 | |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 84.334 | N/A | 282,127 | | 338,535 | |
| Total Gaining Early Awareness and Readiness for Undergraduate Programs | | | <u>675,923</u> | | <u>661,573</u> | |
| Reading Excellence | 84.338 | 043711-RNS1-2003 | 462,196 | | 180,049 | |
| Title VI-R - Class Size Reduction | 84.340 | 047311-CRS1-2001 | 90,861 | | 115,059 | |
| Title VI-R - Class Size Reduction | 84.340 | 047311-CRS1-2002 | 307,209 | | 471,402 | |
| Total Title VI-R - Class Size Reduction | | | <u>398,070</u> | | <u>586,461</u> | |
| Title I Accountability Grant | 84.348 | 043711-AKS1-2001 | - | | 17,773 | |
| School Renovation Grant | 84.352A | N/A | 106,626 | | 345 | |
| School Renovation Grant | 84.352A | 043711-ATS2-2002 | 7,797 | | 7,797 | |
| School Renovation Grant | 84.352A | 043711-ATS4-2002 | 358 | | - | |
| Total School Renovation Grant | | | <u>114,781</u> | | <u>8,142</u> | |
| Improving Teacher Quality | 84.367 | 043711-TRS1-2003 | 912,061 | | 909,385 | |
| Able/Jobs Service Expansion | 84.561 | 043711-JOB198 | - | | 8,341 | |
| Able/Jobs Service Expansion | 84.561 | 043711-JOB298 | - | | 3,538 | |
| Total Able/Jobs Service Expansion | | | <u>-</u> | | <u>11,879</u> | |
| Total U.S. Department of Education | | | <u>11,115,966</u> | | <u>11,716,343</u> | |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES: | | | | | | |
| (F) Temporary Assistance for Needy Families (TANF) | 93.558 | N/A | 67,758 | | 67,758 | |
| (F) Community Alternative Funding System Program (CAFS) | 93.778 | N/A | 1,397,959 | | 1,397,959 | |
| Total U.S. Department of Health and Human Services | | | <u>1,465,717</u> | | <u>1,465,717</u> | |
| Total Federal Financial Assistance | | | <u>\$ 15,506,553</u> | <u>\$ 252,670</u> | <u>\$ 16,131,974</u> | <u>\$ 252,670</u> |

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.
- (B) The Food Distribution Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
- (C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
- (D) This schedule was prepared on the cash basis of accounting.
- (E) This program is prepared on the accrual basis of accounting.
- (F) A pass-through grant number was not available for this federal award.
- (G) Amount of \$2,604 carried over into fiscal year 2003 grant period based on Ohio Department of Education administrative action.
- (H) Amount of \$412,485 carried over into fiscal year 2003 grant period based on Ohio Department of Education administrative action.
- (I) Amount of \$3,660 carried over into fiscal year 2003 grant period based on Ohio Department of Education administrative action.
- (J) Amount of \$912 carried over into fiscal year 2003 grant period based on Ohio Department of Education administrative action.
- (K) Amounts repaid to the Ohio Department of Education based on expiration of the period of availability.
- (L) Amount of \$3,783 carried over into fiscal year 2003 grant period based on Ohio Department of Education administrative action.

TRIMBLE, JULIAN & GRUBE, INC.

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Facsimile 14.846.2799

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

Board of Education
Canton City School District
617 McKinley Avenue, SW
Canton, Ohio 44707

We have audited the basic financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Canton City School District, Stark County, (the “District”) as of and for the fiscal year ended June 30, 2003, and have issued our report thereon dated January 23, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District’s financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated January 23, 2004.

Board of Education
Canton City School District

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Canton City School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Canton City School District and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of District in a separate letter dated January 23, 2004.

This report is intended for the information of the management and the Board of Education of the Canton City School District, Stark County, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Trimble, Julian & Grube, Inc.
January 23, 2004

TRIMBLE, JULIAN & GRUBE, INC.

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

Board of Education
Canton City School District
617 McKinley Avenue, SW
Canton, Ohio 44707

Compliance

We have audited the compliance of Canton City School District, Stark County, (the “District”) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each major federal program for the fiscal year ended June 30, 2003. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the District’s management. Our responsibility is to express an opinion on the District’s compliance based on our audit.

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

Board of Education
Canton City School District

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each major federal program for the fiscal year ended June 30, 2003.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated January 23, 2004.

This report is intended for the information of the management and the Board of Canton City School District, Stark County, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Trimble, Julian & Grube, Inc.
January 23, 2004

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
JUNE 30, 2003**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|---|
| <i>(d)(1)(i)</i> | <i>Type of Financial Statement Opinion</i> | Unqualified |
| <i>(d)(1)(ii)</i> | <i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i> | No |
| <i>(d)(1)(ii)</i> | <i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i> | No |
| <i>(d)(1)(iii)</i> | <i>Was there any reported non-compliance at the financial statement level (GAGAS)?</i> | No |
| <i>(d)(1)(iv)</i> | <i>Were there any material internal control weakness conditions reported for major federal programs?</i> | No |
| <i>(d)(1)(iv)</i> | <i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i> | No |
| <i>(d)(1)(v)</i> | <i>Type of Major Programs' Compliance Opinion</i> | Unqualified |
| <i>(d)(1)(vi)</i> | <i>Are there any reportable findings under § .510?</i> | No |
| <i>(d)(1)(vii)</i> | <i>Major Programs:</i> | Nutrition Grant Cluster: Food Distribution CFDA #10.550, School Breakfast Program #10.553, National School Lunch #10.555, Vocational Education State Grant Program CFDA #84.048, Twenty First Century Community Learning Centers CFDA # 84.287, Improving Teacher Quality CFDA #84.367. |
| <i>(d)(1)(viii)</i> | <i>Dollar Threshold: Type A/B Programs</i> | Type A: >\$491,539 Type B: all others |
| <i>(d)(1)(ix)</i> | <i>Low Risk Auditee?</i> | Yes |

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
JUNE 30, 2003**

**SCHEDULE OF FINDINGS
*OMB CIRCULAR A-133 § .505***

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
JUNE 30, 2003**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .505**

| <u>Finding Number</u> | <u>Finding Summary</u> | <u>Fully Corrected?</u> | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|------------------------------|---|--------------------------------|---|
| 2002-11276-001 | A Finding for Recovery was issued pursuant to Ohio Revised Code Section 117.28 against Billi J. Snyder, First Grad Teacher, Judy Robinson, Payroll Supervisor, and the Indiana Insurance Company in the amount of \$10,327. | Yes | N/A. |
| 2002-11276-002 | The District was not reconciling its payroll bank account timely, completely, or maintained adequate supporting documentation for numerous reconciling items. | Yes | N/A. |
| 2002-11276-003 | Certain payroll staff members could access the payroll history file without authorization. | Yes | N/A. |
| 2002-11276-004 | The District does not have procedures ensuring capital asset accountability. | No | Partially Corrected; re-issued within the management letter. |
| 2002-11276-005 | The District not properly encumber certain contracts at June 30, 2002. | Yes | N/A. |



**Auditor of State
Betty Montgomery**

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CANTON CITY SCHOOL DISTRICT

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 4, 2004**