



**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Canton City School District
Stark County
617 McKinley Avenue SW
Canton, Ohio 44707

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Canton City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Canton City School District, Stark County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

March 24, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The management's discussion and analysis of Canton City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. 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 2005 are as follows:

- In total, net assets increased \$2.714 million. Net assets of governmental activities increased \$2.792 million, which represents a 1.90% increase from 2004. Net assets of business-type activities decreased \$.078 million or 2.71% from 2004.
- General revenues for governmental activities, accounted for \$97.334 million in revenue or 76.78% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$29.429 million or 23.22% of total governmental activities revenues of \$126.763 million.
- The District had \$123.971 million in expenses related to governmental activities; only \$29.429 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 \$97.334 million were 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 \$92.873 million in revenues and \$92.502 million in expenditures and other financing uses. The general fund's fund balance increased \$.458 million from a deficit of \$11.165 million to a deficit of \$10.707 million.
- The debt service fund had \$34.854 million in revenues and other financing sources and \$33.107 million in expenditures and other financing uses. The debt service fund's fund balance increased \$1.747 million from \$6.355 million to \$8.102 million.
- The classroom facilities fund had \$18.728 million in revenues and \$25.539 million in expenditures. The classroom facilities fund's fund balance decreased \$6.811 million from \$54.647 million to \$47.836 million.
- The District's two nonmajor enterprise funds are the food service fund and adult education fund. The food service fund had \$4.377 million in revenues and \$4.283 million in expenses. The food services fund net assets increased \$.094 million from \$1.655 million to \$1.749 million.
- The District's other nonmajor enterprise fund is the adult education fund. The adult education fund had \$1.335 million in revenues and \$1.507 million in expenses. The adult education fund net assets decreased \$.172 million from \$1.218 million to \$1.046 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, 2005
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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 2005?" 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.

The District's statement of net assets and statement of activities can be found on pages 15-18 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, debt service fund and classroom facilities fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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. The basic governmental fund financial statements can be found on pages 19-24 of this report.

Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole. The basic proprietary fund financial statements can be found on pages 25-28 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose-trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 29 and 30. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31-65 of this report.

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

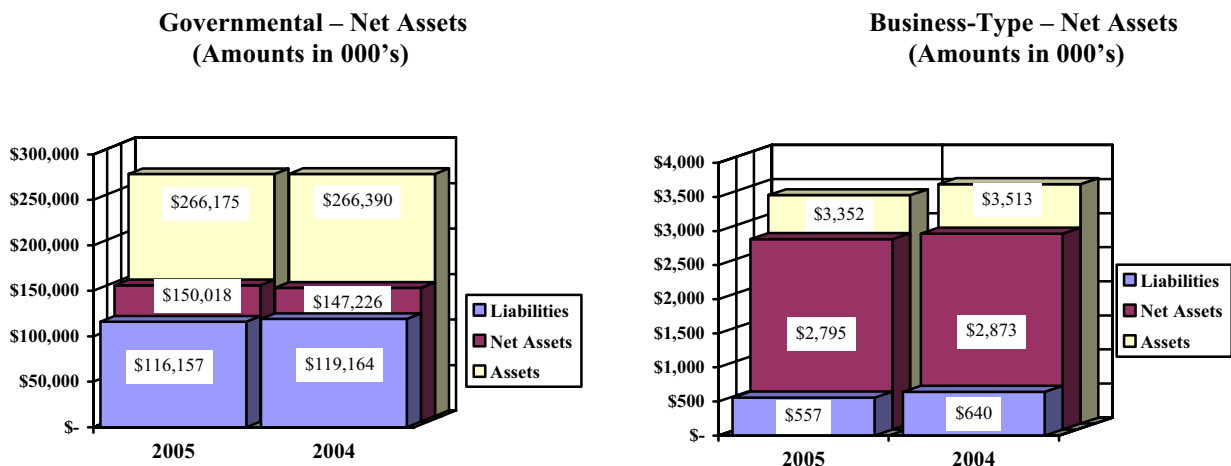
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

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 2005 and 2004.

	Net Assets (Amounts in 000's)					
	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 122,370	\$ 145,246	\$ 3,088	\$ 3,195	\$ 125,458	\$ 148,441
Restricted assets	4,613	3,379	-	-	4,613	3,379
Capital assets	139,192	117,765	264	318	139,456	118,083
Total assets	<u>266,175</u>	<u>266,390</u>	<u>3,352</u>	<u>3,513</u>	<u>269,527</u>	<u>269,903</u>
Liabilities						
Current liabilities	53,073	53,689	386	448	53,459	54,137
Long-term liabilities	63,084	65,475	171	192	63,255	65,667
Total liabilities	<u>116,157</u>	<u>119,164</u>	<u>557</u>	<u>640</u>	<u>116,714</u>	<u>119,804</u>
Net Assets						
Invested in capital assets, net of debt	130,003	111,214	264	318	130,267	111,532
Restricted	28,681	45,676	-	-	28,681	45,676
Unrestricted	(8,666)	(9,664)	2,531	2,555	(6,135)	(7,109)
Total net assets	<u>\$ 150,018</u>	<u>\$ 147,226</u>	<u>\$ 2,795</u>	<u>\$ 2,873</u>	<u>\$ 152,813</u>	<u>\$ 150,099</u>

Total net assets of the District increased by \$2.714 million, governmental activities net assets increased \$2.792 million and business-type activities net assets decreased \$.078 million.



The table below shows the changes in net assets for governmental activities and business-type activities for fiscal year 2005 and 2004.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

**Change in Net Assets
(Amounts in 000's)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 2,887	\$ 2,760	\$ 1,633	\$ 1,589	\$ 4,520	\$ 4,349
Operating grants and contributions	25,911	23,941	4,043	3,967	29,954	27,908
Capital grants and contributions	631	343	-	-	631	343
General revenues:						
Property taxes	32,431	29,164	-	-	32,431	29,164
Grants and entitlements	62,406	58,784	-	-	62,406	58,784
Investment earnings	1,787	537	27	20	1,814	557
Other	710	739	9	1	719	740
Total revenues	<u>126,763</u>	<u>116,268</u>	<u>5,712</u>	<u>5,577</u>	<u>132,475</u>	<u>121,845</u>
Expenses						
Program expenses:						
Instruction:						
Regular	45,564	45,410	-	-	45,564	45,410
Special	15,645	16,607	-	-	15,645	16,607
Vocational	1,105	2,166	-	-	1,105	2,166
Adult/continuing	755	881	-	-	755	881
Other	9,138	6,721	-	-	9,138	6,721
Support services:						
Pupil	8,840	10,388	-	-	8,840	10,388
Instructional staff	7,976	8,494	-	-	7,976	8,494
Board of Education	13	22	-	-	13	22
Administration	8,680	10,399	-	-	8,680	10,399
Fiscal	1,441	1,531	-	-	1,441	1,531
Business	629	924	-	-	629	924
Operations and maintenance	12,487	16,906	-	-	12,487	16,906
Pupil transportation	2,963	3,826	-	-	2,963	3,826
Central	3,080	3,960	-	-	3,080	3,960
Operation of non-instructional services	1,551	1,400	-	-	1,551	1,400
Extracurricular activities	2,163	2,293	-	-	2,163	2,293
Intergovernmental	468	467	-	-	468	467
Interest and fiscal charges	1,473	2,151	-	-	1,473	2,151
Food service	-	-	4,283	4,281	4,283	4,281
Adult education	-	-	1,507	1,573	1,507	1,573
Total expenses	<u>123,971</u>	<u>134,546</u>	<u>5,790</u>	<u>5,854</u>	<u>129,761</u>	<u>140,400</u>
Changes in net assets	2,792	(18,278)	(78)	(277)	2,714	(18,555)
Net assets at beginning of year	<u>147,226</u>	<u>165,504</u>	<u>2,873</u>	<u>3,150</u>	<u>150,099</u>	<u>168,654</u>
Net assets at end of year	<u>\$ 150,018</u>	<u>\$ 147,226</u>	<u>\$ 2,795</u>	<u>\$ 2,873</u>	<u>\$ 152,813</u>	<u>\$ 150,099</u>

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

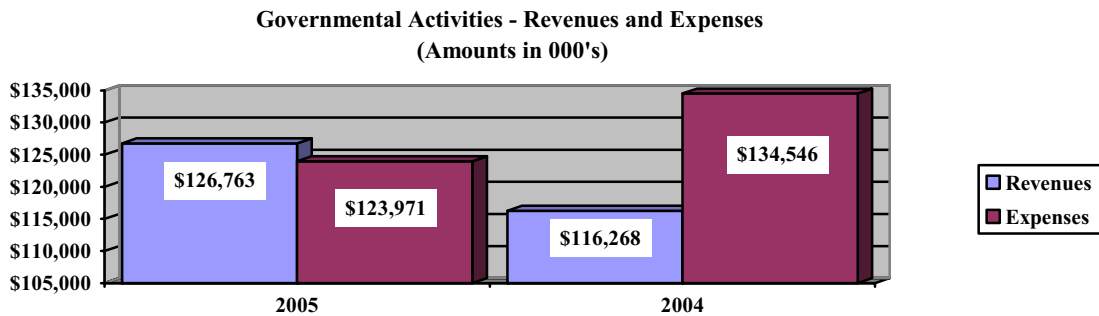
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Governmental Activities

Net assets of the District's governmental activities increased by \$2.792 million. Total governmental expenses of \$123.971 million were offset by program revenues of \$29.429 million and general revenues of \$97.334 million. Program revenues supported 23.74% 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 74.81% of total governmental revenue. Real estate property is reappraised every six years.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.



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 2005 and 2004. 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 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 45,564	\$ 36,133	\$ 45,410	\$ 36,402
Special	15,645	9,571	16,607	12,479
Vocational	1,105	1,105	2,166	2,027
Adult/continuing	755	16	881	(178)
Other	9,138	9,138	6,721	6,710

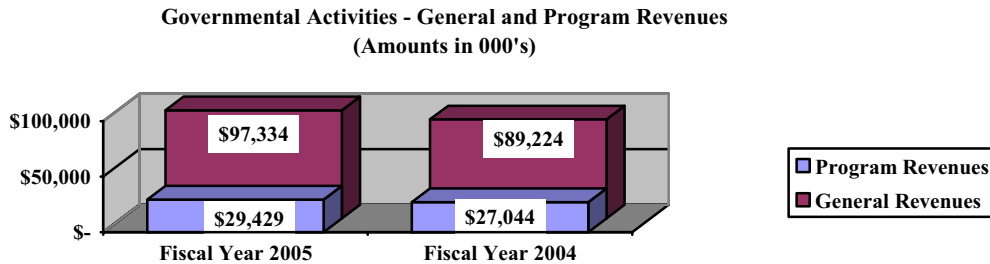
**CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Support services:				
Pupil	8,840	5,993	10,388	7,143
Instructional staff	7,976	1,906	8,494	3,055
Board of Education	13	13	22	22
Administration	8,680	7,623	10,399	9,347
Fiscal	1,441	877	1,531	1,373
Business	629	629	924	924
Operations and maintenance	12,487	11,757	16,906	16,307
Pupil transportation	2,963	2,795	3,826	3,748
Central	3,080	2,803	3,960	3,263
Operation of non-instructional services	1,551	1,111	1,400	994
Extracurricular activities	2,163	1,586	2,293	1,592
Intergovernmental	468	13	467	143
Interest and fiscal charges	1,473	1,473	2,151	2,151
Total expenses	\$ 123,971	\$ 94,542	\$ 134,546	\$ 107,502

The dependence upon tax revenues during fiscal year 2005 for governmental activities is apparent, as 77.50% of 2005 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 76.26% in 2005. 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 2005 and 2004.



Business-Type Activities

Business-type activities include adult education and the food service operation. These programs had revenues of \$5.712 million and expenses of \$5.790 million for fiscal year 2005. During fiscal year 2005, the District is taking steps to reduce expenses. The District's business activities receive no support from tax revenues.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The District's Funds

The District's governmental funds (as presented on the balance sheet on page 19) reported a combined fund balance of \$46.757 million, which is below last year's total of \$53.134 million. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004 (amounts in 000's).

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase (Decrease)
General	\$ (10,707)	\$ (11,165)	\$ 458
Debt Service	8,102	6,355	1,747
Classroom Facilities	47,836	54,647	(6,811)
Other Governmental	1,526	3,297	(1,771)
Total	<u>\$ 46,757</u>	<u>\$ 53,134</u>	<u>\$ (6,377)</u>

General Fund

The District's general fund balance increased by \$.458 million, due to increasing revenues and decreased expenditures. The table below assists in illustrating the financial activities and fund balance of the general fund (amounts in 000's).

	2005 Amount	Restated 2004 Amount	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Taxes	\$ 28,041	\$ 25,070	\$ 2,971	11.85 %
Interest earnings	477	336	141	41.96 %
Intergovernmental	61,929	58,327	3,602	6.18 %
Other revenues	2,426	2,901	(475)	(16.37) %
Total	<u>\$ 92,873</u>	<u>\$ 86,634</u>	<u>\$ 6,239</u>	7.20 %
<u>Expenditures</u>				
Instruction	\$ 56,714	\$ 55,710	\$ 1,004	1.80 %
Support services	33,244	36,763	(3,519)	(9.57) %
Operation of non-instructional services	410	456	(46)	(10.09) %
Extracurricular activities	1,328	1,381	(53)	(3.84) %
Facilities acquisition and construction	331	632	(301)	(47.63) %
Debt Service	290	296	(6)	(2.03) %
Total	<u>\$ 92,317</u>	<u>\$ 95,238</u>	<u>\$ (2,921)</u>	(3.07) %

Other revenues decreased \$.475 million or 16.37% from the prior year. This decrease is attributed to a decrease in the amount of tuition the District received in 2005. The increase in investment income is due to increased 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 2004. Instruction expenditures increased 1.80% and represented the largest expenditure item of the District.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Debt Service Fund

The District's debt service fund balance increased by \$1.747 million, due to the proceeds from the sale of bonds being more than the refunded bonds during 2005. The table that follows assists in illustrating the financial activities and fund balance of the debt service fund (amounts in 000's).

	2005 <u>Amount</u>	2004 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,506	\$ 3,311	\$ 195	5.89 %
Intergovernmental	<u>329</u>	<u>310</u>	<u>19</u>	6.13 %
Total	<u>\$ 3,835</u>	<u>\$ 3,621</u>	<u>\$ 214</u>	5.91 %
<u>Expenditures</u>				
Debt Service	\$ 2,468	\$ 2,698	\$ (230)	(8.52) %
Total	<u>\$ 2,468</u>	<u>\$ 2,698</u>	<u>\$ (230)</u>	(8.52) %

Classroom Facilities Fund

The District's classroom facilities fund balance decreased \$6.811 million. The table that follows assists in illustrating the financial activities and fund balance of the classroom facilities fund (amounts in 000's).

	2005 <u>Amount</u>	2004 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Interest earnings	\$ 1,261	\$ 151	\$ 1,110	91.33 %
Intergovernmental	<u>17,467</u>	<u>29,903</u>	<u>(12,436)</u>	(41.59) %
Total	<u>\$ 18,728</u>	<u>\$ 30,054</u>	<u>\$ (11,326)</u>	(37.69) %
<u>Expenditures</u>				
Facilities acquisition and construction	\$ 25,539	\$ 34,428	\$ (8,889)	(25.82) %
Total	<u>\$ 25,539</u>	<u>\$ 34,428</u>	<u>\$ (8,889)</u>	(25.82) %

Intergovernmental revenue decreased \$12.436 million from the prior year. This decrease is attributed to a decrease in the building projects that were covered by the Ohio Schools Facilities grants the District received in 2005. Expenditures for the building projects also decreased in 2005 versus 2004. The increase in investment income is due to the fluctuation in the fair market value of investments which is posted to interest earnings. Actual interest received on a cash basis during fiscal year 2005 was \$1.2 million.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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General Fund Budgeting Highlights

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

During the course of fiscal year 2005, the District amended its general fund budget once. 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 \$98.654 million, below original budget estimates of \$101.105 million. The actual revenues and other financing sources were \$97.851 million, which was \$.803 million lower than the final budgeted revenues. The variance between the original budgeted revenue, final budgeted revenues and actual revenues is in the area of taxes and intergovernmental grants received.

General fund original appropriations and other financing uses of \$98.842 million were increased to \$100.628 million in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$100.085 million, which was \$.543 million less than final budgeted appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$139.456 million invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress (CIP). Of this total, \$139.192 million was reported in governmental activities and \$.264 million was reported in business-type activities.

The following table shows fiscal year 2005 balances compared to 2004:

	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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 17,315	\$ 17,315	\$ -	\$ -	\$ 17,315	\$ 17,315
Land improvements	3,313	3,508	-	-	3,313	3,508
Buildings and improvements	87,807	64,440	-	-	87,807	64,440
Furniture and equipment	2,533	3,328	264	318	2,797	3,646
Vehicles	521	558	-	-	521	558
Construction in progress	<u>27,703</u>	<u>28,616</u>	<u>-</u>	<u>-</u>	<u>27,703</u>	<u>28,616</u>
Total	<u><u>\$ 139,192</u></u>	<u><u>\$ 117,765</u></u>	<u><u>\$ 264</u></u>	<u><u>\$ 318</u></u>	<u><u>\$ 139,456</u></u>	<u><u>\$ 118,083</u></u>

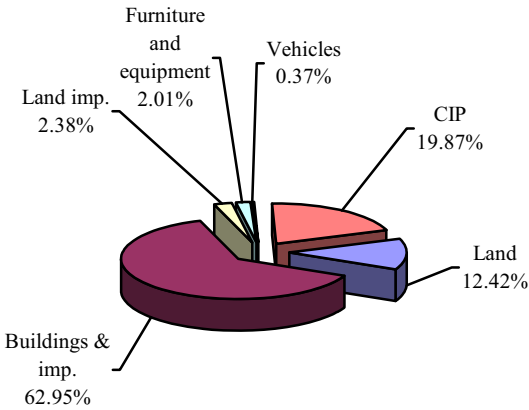
Total additions to governmental activities capital assets for 2005 were \$25.521 million. Depreciation expense for fiscal year 2005 was \$4.094 million. Overall, governmental activities capital assets of the District increased \$21.427 million.

The following graphs show the breakdown of total capital assets by category for 2005 and 2004.

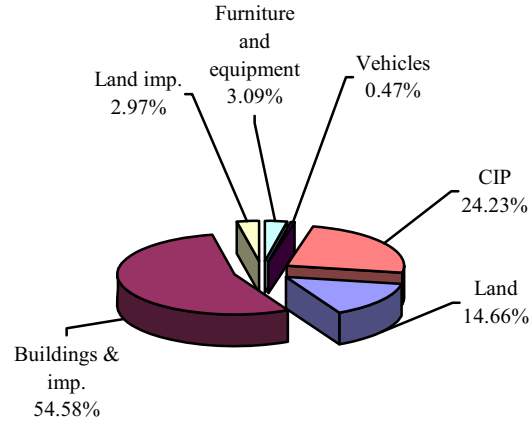
**CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

Capital Assets - 2005



Capital Assets - 2004



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

Debt Administration

At June 30, 2005 the District had \$55.561 million in general obligation bonds, notes and capital lease obligations outstanding. Of this total, \$2.513 million is due within one year and \$53.048 million is due within greater than one year. The following table summarizes the bonds, notes and leases outstanding.

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

	Governmental Activities 2005	Governmental Activities 2004
General obligation bonds:		
Construction and renovation	\$ 46,371	\$ 46,529
Notes payable	8,520	9,055
Capital lease obligation	670	896
Total	\$ 55,561	\$ 56,480

At June 30, 2005, the District's overall legal debt margin was \$44.674 million with an unvoted debt margin of \$.922 million.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Current Financial Related Activities

Declining enrollment continues to be the District's number one problem. Canton City Schools lost another 200 pupils in the 2004-2005 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 sixth straight year that enrollment has declined. The total number of students lost in those six years is approximately 2,100. The District receives \$5,301 per pupil in the current state funding formula.

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

The District did pass a 7.9 mill operating levy on March 2, 2004. This new levy will bring in an additional \$6.8 million per year beginning January 1, 2005. The District borrowed \$3.4 million in June of 2004 in anticipation of these future collections. The note will be repaid over a five year period.

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

Contacting the District's Financial Management

This financial report is designed to provide our 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.

BASIC
FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2005
(AMOUNTS IN 000's)

Primary Government

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 61,832	\$ 2,197	\$ 64,029
Cash in segregated accounts	1,073	-	1,073
Receivables:			
Taxes	41,877	-	41,877
Accounts	125	-	125
Intergovernmental	16,392	843	17,235
Accrued interest	306	-	306
Loans	25	-	25
Prepayments	91	-	91
Unamortized bond and note issue costs	453	-	453
Materials and supplies inventory	196	48	244
Restricted assets:			
Equity in pooled cash and investments	4,613	-	4,613
Capital assets:			
Land and construction in progress	45,018	-	45,018
Depreciable capital assets, net	94,174	264	94,438
Total capital assets, net	139,192	264	139,456
Total assets	<u>266,175</u>	<u>3,352</u>	<u>269,527</u>
Liabilities:			
Accounts payable	745	34	779
Contracts payable	2,118	-	2,118
Retainage payable	1,074	-	1,074
Accrued wages and benefits	11,796	131	11,927
Pension obligation payable	2,544	214	2,758
Intergovernmental payable	353	7	360
Deferred revenue	33,809	-	33,809
Accrued interest payable	179	-	179
Claims payable	455	-	455
Long-term liabilities:			
Due within one year	4,611	44	4,655
Due within more than one year	58,473	127	58,600
Total liabilities	<u>116,157</u>	<u>557</u>	<u>116,714</u>
Net Assets:			
Invested in capital assets, net of related debt	130,003	264	130,267
Restricted for:			
Capital projects	14,109	-	14,109
Debt service	8,399	-	8,399
Classroom facilities maintenance	977	-	977
Locally funded programs	1,347	-	1,347
State funded programs	175	-	175
Federally funded programs	3,451	-	3,451
Student activities	136	-	136
Other purposes	87	-	87
Unrestricted (deficit)	(8,666)	2,531	(6,135)
Total net assets	<u>\$ 150,018</u>	<u>\$ 2,795</u>	<u>\$ 152,813</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Component Units

Canton City Schools Digital Academy		Canton Academy Community School	
\$	15	\$	121
	-		-
	-		-
	150		-
	-		-
	-		-
	1		2
	-		-
	-		-
	-		-
	-		-
	115		16
	115		16
	281		139
	13		36
	-		-
	-		-
	-		-
	-		-
	86		58
	-		-
	-		-
	-		-
	-		-
	-		-
	99		94
	115		16
	-		-
	-		-
	-		-
	1		8
	-		15
	-		-
	-		-
	66		6
\$	182	\$	45

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(AMOUNTS IN 000's)

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instruction:				
Regular	\$ 45,564	\$ 1,608	\$ 7,823	\$ -
Special	15,645	-	6,074	-
Vocational	1,105	-	-	-
Adult/continuing	755	26	713	-
Other	9,138	-	-	-
Support services:				
Pupil.	8,840	240	2,607	-
Instructional staff	7,976	30	6,040	-
Board of education	13	-	-	-
Administration.	8,680	25	1,032	-
Fiscal.	1,441	-	70	494
Business.	629	-	-	-
Operations and maintenance	12,487	123	501	106
Pupil transportation.	2,963	91	77	-
Central	3,080	2	244	31
Operation of non-instructional services	1,551	165	275	-
Extracurricular activities.	2,163	577	-	-
Intergovernmental	468	-	455	-
Interest and fiscal charges	1,473	-	-	-
Total governmental activities	<u>123,971</u>	<u>2,887</u>	<u>25,911</u>	<u>631</u>
Business-type activities:				
Food service.	4,283	655	3,699	-
Adult education.	1,507	978	344	-
Total business-type activities	<u>5,790</u>	<u>1,633</u>	<u>4,043</u>	<u>-</u>
Totals	<u>\$ 129,761</u>	<u>\$ 4,520</u>	<u>\$ 29,954</u>	<u>\$ 631</u>
Component Units:				
Canton City Schools Digital Academy	\$ 861	\$ -	\$ 731	\$ -
Canton Academy Community School	515	1	468	-
Totals	<u>\$ 1,376</u>	<u>\$ 1</u>	<u>\$ 1,199</u>	<u>\$ -</u>

General Revenues:

Property taxes levied for:	
General purposes	
Debt service.	
Capital outlay.	
Facilities maintenance.	
Grants and entitlements not restricted to specific programs	
Investment earnings	
Miscellaneous	
Total general revenues	
Change in net assets	
Net assets at beginning of year.	
Net assets at end of year	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

Primary Government			Component Units		
Governmental Activities	Business-Type Activities	Total	Canton City Schools Digital Academy	Canton Academy Digital School	
\$ (36,133)	\$ -	\$ (36,133)	\$ -	\$ -	
(9,571)	-	(9,571)	-	-	
(1,105)	-	(1,105)	-	-	
(16)	-	(16)	-	-	
(9,138)	-	(9,138)	-	-	
(5,993)	-	(5,993)	-	-	
(1,906)	-	(1,906)	-	-	
(13)	-	(13)	-	-	
(7,623)	-	(7,623)	-	-	
(877)	-	(877)	-	-	
(629)	-	(629)	-	-	
(11,757)	-	(11,757)	-	-	
(2,795)	-	(2,795)	-	-	
(2,803)	-	(2,803)	-	-	
(1,111)	-	(1,111)	-	-	
(1,586)	-	(1,586)	-	-	
(13)	-	(13)	-	-	
(1,473)	-	(1,473)	-	-	
(94,542)	-	(94,542)	-	-	
-	71	71	-	-	
-	(185)	(185)	-	-	
-	(114)	(114)	-	-	
(94,542)	(114)	(94,656)	-	-	
-	-	-	(130)	-	
-	-	-	-	(46)	
-	-	-	(130)	(46)	
28,362	-	28,362	-	-	
3,464	-	3,464	-	-	
181	-	181	-	-	
424	-	424	-	-	
62,406	-	62,406	155	49	
1,787	27	1,814	-	-	
710	9	719	-	42	
97,334	36	97,370	155	91	
2,792	(78)	2,714	25	45	
147,226	2,873	150,099	157	-	
\$ 150,018	\$ 2,795	\$ 152,813	\$ 182	\$ 45	

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005
(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	\$ 1,306	\$ 7,586	\$ 49,699	\$ 6,001	\$ 64,592
Cash in segregated accounts	-	-	1,073	-	1,073
Receivables:					
Taxes	37,356	3,003	-	1,518	41,877
Accounts	119	1	-	2	122
Intergovernmental	431	-	11,123	4,837	16,391
Accrued interest	22	-	284	-	306
Interfund loans	582	345	-	-	927
Loans	25	-	-	-	25
Prepayments	66	-	9	16	91
Materials and supplies inventory	196	-	-	-	196
Restricted assets:					
Equity in pooled cash and cash equivalents	87	-	-	-	87
Total assets	<u>\$ 40,190</u>	<u>\$ 10,935</u>	<u>\$ 62,188</u>	<u>\$ 12,374</u>	<u>\$ 125,687</u>
Liabilities:					
Accounts payable	\$ 321	\$ -	\$ 3	\$ 421	\$ 745
Contracts payable	40	-	2,064	14	2,118
Retainage payable	-	-	1,074	-	1,074
Accrued wages and benefits	9,698	-	-	2,088	11,786
Compensated absences payable	592	-	-	175	767
Pension obligation payable	1,977	-	-	565	2,542
Intergovernmental payable	310	-	-	43	353
Interfund loan payable	-	-	-	927	927
Deferred insurance liability	2,041	-	-	401	2,442
Deferred revenue	35,918	2,833	11,211	6,214	56,176
Total liabilities	<u>50,897</u>	<u>2,833</u>	<u>14,352</u>	<u>10,848</u>	<u>78,930</u>
Fund Balances:					
Reserved for encumbrances	808	-	16,937	838	18,583
Reserved for textbooks	87	-	-	-	87
Reserved for materials and supplies inventory	196	-	-	-	196
Reserved for debt service	-	7,932	-	-	7,932
Reserved for property tax unavailable for appropriation	1,458	170	-	64	1,692
Reserved for prepayments	66	-	9	16	91
Unreserved, undesignated (deficit), reported in:					
General fund	(13,322)	-	-	-	(13,322)
Special revenue funds	-	-	-	(167)	(167)
Capital projects funds	-	-	30,890	775	31,665
Total fund balances	<u>(10,707)</u>	<u>8,102</u>	<u>47,836</u>	<u>1,526</u>	<u>46,757</u>
Total liabilities and fund balances	<u>\$ 40,190</u>	<u>\$ 10,935</u>	<u>\$ 62,188</u>	<u>\$ 12,374</u>	<u>\$ 125,687</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005
(AMOUNTS IN 000's)

Total governmental fund balances		\$	46,757
<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.			139,192
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	6,376	
Accrued interest		303	
Intergovernmental revenue		15,656	
Other local revenue		33	
		33	
Total			22,368
Unamortized deferred charges on refundings are not recognized in the funds.			2,283
Unamortized premiums on bond and note issuances are not recognized in the funds.			(2,738)
Unamortized bond issuance costs are not recognized in the funds.			453
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 on the statement of net assets.			1,299
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(178)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(46,371)	
Compensated absences		(3,857)	
Capital lease obligations		(670)	
Notes payable		(8,520)	
		(8,520)	
Total			(59,418)
Net assets of governmental activities		\$	150,018

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, 2005
(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.	\$ 28,041	\$ 3,506	\$ -	\$ 640	\$ 32,187
Tuition.	864	-	-	11	875
Earnings on investments.	477	-	1,261	29	1,767
Extracurricular.	19	-	-	804	823
Classroom materials and fees.	23	-	-	-	23
Rental income.	157	-	-	69	226
Contributions and donations.	-	-	-	86	86
Charges for services.	707	-	-	130	837
Other local revenues.	656	-	-	38	694
Intergovernmental - Intermediate sources.	-	-	-	737	737
Intergovernmental - State.	60,251	329	17,467	10,403	88,450
Intergovernmental - Federal.	1,678	-	-	12,780	14,458
Total revenue.	<u>92,873</u>	<u>3,835</u>	<u>18,728</u>	<u>25,727</u>	<u>141,163</u>
Expenditures:					
Current:					
Instruction:					
Regular.	35,094	-	-	7,729	42,823
Special.	10,986	-	-	5,467	16,453
Vocational.	1,488	-	-	46	1,534
Adult/continuing.	-	-	-	866	866
Other.	9,146	-	-	-	9,146
Support Services:					
Pupil.	6,189	-	-	2,526	8,715
Instructional staff.	2,056	-	-	5,760	7,816
Board of education.	13	-	-	-	13
Administration.	7,595	-	-	907	8,502
Fiscal.	1,374	-	-	72	1,446
Business.	654	-	-	-	654
Operations and maintenance.	9,792	-	-	762	10,554
Pupil transportation.	2,774	-	-	169	2,943
Central.	2,797	-	-	332	3,129
Operation of non-instructional services.	410	-	-	791	1,201
Extracurricular activities.	1,328	-	-	604	1,932
Facilities acquisition and construction.	331	-	25,539	1,125	26,995
Intergovernmental pass through.	-	-	-	497	497
Debt service:					
Principal retirement.	226	910	-	-	1,136
Interest and fiscal charges.	64	1,179	-	-	1,243
Bond issuance costs.	-	379	-	-	379
Total expenditures.	<u>92,317</u>	<u>2,468</u>	<u>25,539</u>	<u>27,653</u>	<u>147,977</u>
Excess of revenues over (under) expenditures.	<u>556</u>	<u>1,367</u>	<u>(6,811)</u>	<u>(1,926)</u>	<u>(6,814)</u>

--continued

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(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>
Other financing sources (uses):					
Transfers in	-	-	-	155	155
Transfers (out).	(185)	-	-	-	(185)
Sale of bonds	-	28,325	-	-	28,325
Premium on bonds sold	-	2,694	-	-	2,694
Payment to refunded bond escrow.	-	(30,639)	-	-	(30,639)
Total other financing sources (uses)	<u>(185)</u>	<u>380</u>	<u>-</u>	<u>155</u>	<u>350</u>
Net change in fund balances	371	1,747	(6,811)	(1,771)	(6,464)
Fund balances (deficit)					
at beginning of year (restated)	(11,165)	6,355	54,647	3,297	53,134
Increase in reserve for inventory	<u>87</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>87</u>
Fund balances (deficit)					
at end of year	<u>\$ (10,707)</u>	<u>\$ 8,102</u>	<u>\$ 47,836</u>	<u>\$ 1,526</u>	<u>\$ 46,757</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(AMOUNTS IN 000's)

Net change in fund balances - total governmental funds \$ (6,464)

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

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

Capital asset additions	\$	25,521	
Current year depreciation		(4,094)	
Total			21,427

Proceeds of bonds are recorded as revenues in the funds, however, in the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets. (28,325)

Governmental funds report expenditures for inventory when purchased, however, in the statement of activities, they are reported as expenditures when consumed. 87

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (14,400)

Repayment of long-term principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. The following principal payments were made in the fiscal year:

Bonds		28,700	
Notes		535	
Capital lease obligations		226	
Total			29,461

In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in increased interest being reported on the statement of activities:

Increase in accrued interest payable		(12)	
Accreted interest on "capital appreciation" bonds		(217)	
Bond issuance costs incurred in the fiscal year		379	
Amortization of bond and note issuance costs		(15)	
Premium on bonds issued in the fiscal year		(2,694)	
Amortization on bond and note premiums		46	
Deferred charge on refunding incurred in fiscal year		2,314	
Amortization of deferred charge on refunding		(31)	
Total			(230)

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 286

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 district-wide statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue of the internal service funds are allocated among the governmental activities. 950

Change in net assets of governmental activities \$ 2,792

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, 2005
(AMOUNTS IN 000's)

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 28,554	\$ 27,814	\$ 27,927	\$ 113
Tuition	877	855	858	3
Earnings on investments	448	436	438	2
Extracurricular	16	16	16	-
Classroom materials and fees	25	24	24	-
Other local revenues	1,384	1,349	1,354	5
Intergovernmental - State	61,604	60,007	60,251	244
Intergovernmental - Federal	1,689	1,645	1,652	7
Total revenue	<u>94,597</u>	<u>92,146</u>	<u>92,520</u>	<u>374</u>
Expenditures:				
Current:				
Instruction:				
Regular	36,024	36,375	36,222	153
Special	11,584	11,641	11,271	370
Vocational	1,854	1,797	1,682	115
Other	7,344	7,274	9,086	(1,812)
Support Services:				
Pupil	6,447	6,494	6,403	91
Instructional staff	2,436	2,222	2,200	22
Board of education	18	18	14	4
Administration	8,046	7,978	8,527	(549)
Fiscal	1,236	3,066	1,406	1,660
Business	950	910	685	225
Operations and maintenance	9,993	10,143	10,095	48
Pupil transportation	2,952	2,829	2,905	(76)
Central	2,773	2,773	2,835	(62)
Operation of non-instructional services	512	521	441	80
Extracurricular activities	1,311	1,354	1,358	(4)
Facilities acquisition and construction	362	362	371	(9)
Total expenditures	<u>93,842</u>	<u>95,757</u>	<u>95,501</u>	<u>256</u>
Excess of revenues over (under) expenditures	755	(3,611)	(2,981)	630
Other financing sources (uses):				
Refund of prior year expenditure	200	200	151	(49)
Refund of prior year receipt	(200)	(200)	(234)	(34)
Transfers in	100	100	118	18
Transfers (out)	(200)	(152)	(303)	(151)
Advances in	6,208	6,208	5,062	(1,146)
Advances (out)	(4,600)	(4,519)	(4,047)	472
Total other financing sources (uses)	<u>1,508</u>	<u>1,637</u>	<u>747</u>	<u>(890)</u>
Net change in fund balance	2,263	(1,974)	(2,234)	(260)
Fund balance at beginning of year	1,679	1,679	1,679	-
Prior year encumbrances appropriated	997	997	997	-
Fund balance at end of year	<u>\$ 4,939</u>	<u>\$ 702</u>	<u>\$ 442</u>	<u>\$ (260)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005
(AMOUNTS IN 000's)

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
	Funds	Service Funds
Assets:		
Current assets:		
Equity in pooled cash and investments.	\$ 2,197	\$ 1,766
Receivables:		
Accounts	-	2
Intergovernmental	843	-
Materials and supplies inventory	48	-
	3,088	1,768
Total current assets		
Noncurrent assets:		
Depreciable capital assets, net	264	-
	264	-
Total assets		
	3,352	1,768
Liabilities:		
Accounts payable.	34	-
Accrued wages and benefits	131	10
Compensated absences.	7	3
Pension obligation payable.	214	1
Intergovernmental payable	7	-
Deferred insurance liability	37	1
Claims payable	-	455
	430	470
Total current liabilities		
Long-term liabilities:		
Compensated absences payable.	90	-
Deferred insurance liability.	37	1
	127	1
Total long-term liabilities		
	127	1
Total liabilities		
	557	471
Net assets:		
Invested in capital assets	264	-
Unrestricted.	2,531	1,299
	2,795	1,299
Total net assets		
	\$ 2,795	\$ 1,299

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, 2005
(AMOUNTS IN 000's)

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
	<u> </u>	<u> </u>
Operating revenues:		
Tuition and fees.	\$ 978	\$ 105
Sales/charges for services.	655	643
Other	9	974
	<u> </u>	<u> </u>
Total operating revenues	1,642	1,722
	<u> </u>	<u> </u>
Operating expenses:		
Personal services.	3,095	24
Purchased services.	236	132
Materials and supplies	2,267	97
Depreciation	54	-
Claims.	-	550
Other.	138	-
	<u> </u>	<u> </u>
Total operating expenses.	5,790	803
	<u> </u>	<u> </u>
Operating income (loss)	(4,148)	919
	<u> </u>	<u> </u>
Nonoperating revenues:		
Federal donated commodities	312	-
Interest revenue	27	1
Grants and subsidies.	3,731	-
	<u> </u>	<u> </u>
Total nonoperating revenues.	4,070	1
	<u> </u>	<u> </u>
Income (loss) before transfers	(78)	920
	<u> </u>	<u> </u>
Transfer in	-	30
	<u> </u>	<u> </u>
Change in net assets	(78)	950
	<u> </u>	<u> </u>
Net assets at beginning of year	2,873	349
	<u> </u>	<u> </u>
Net assets at end of year.	\$ 2,795	\$ 1,299
	<u> </u>	<u> </u>

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, 2005
(AMOUNTS IN 000's)

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
	<u> </u>	<u> </u>
Cash flows from operating activities:		
Cash received from tuition and fees	\$ 978	\$ 105
Cash received from sales/charges for services.	655	1,622
Cash received from other operations	9	-
Cash payments for personal services.	(3,173)	(23)
Cash payments for contractual services	(205)	(140)
Cash payments for materials and supplies	(1,992)	(97)
Cash payments for claims	-	(1,611)
Cash payments for other expenses	(138)	-
	<u> </u>	<u> </u>
Net cash used in operating activities	(3,866)	(144)
Cash flows from noncapital financing activities:		
Cash received from grants and subsidies.	3,654	-
Cash received from transfers in	-	30
	<u> </u>	<u> </u>
Net cash provided by noncapital financing activities.	3,654	30
Cash flows from investing activities:		
Interest received	27	1
	<u> </u>	<u> </u>
Net cash provided by investing activities	27	1
Net decrease in cash and cash equivalents	(185)	(113)
Cash and cash equivalents at beginning of year	2,382	1,879
Cash and cash equivalents at end of year.	\$ 2,197	\$ 1,766
	<u> </u>	<u> </u>

(Continued)

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005
 (AMOUNTS IN 000's)

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	\$ (4,148)	\$ 919
Adjustments:		
Depreciation	54	-
Federal donated commodities	312	-
Changes in assets and liabilities:		
(Increase) in materials and supplies inventory	(2)	-
Decrease in accounts receivable	-	5
Decrease in prepayments	1	-
(Decrease) in accounts payable	(6)	-
Increase (decrease) in accrued wages and benefits	(70)	5
(Decrease) in intergovernmental payable	(13)	-
Increase in compensated absences payable	17	-
Increase (decrease) in pension obligation payable	27	(2)
(Decrease) in deferred insurance liability	(38)	(1)
(Decrease) in claims payable	-	(1,070)
	-	(1,070)
Net cash used in operating activities	\$ (3,866)	\$ (144)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2005
 (AMOUNTS IN 000's)

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$ 101	\$ 233
Total assets	101	\$ 233
Liabilities:		
Accounts payable	-	\$ 17
Loans payable	-	25
Due to students	-	191
Total liabilities	-	\$ 233
Net Assets:		
Held in trust for scholarships	101	
Total net assets.	\$ 101	

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, 2005
 (AMOUNTS IN 000's)

	Private-Purpose Trust	
	Scholarship	
Additions:		
Interest	\$	2
Gifts and contributions.		32
		34
Total additions.		34
Deductions:		
Scholarships awarded		35
		(1)
Change in net assets		(1)
Net assets at beginning of year.		102
Net assets at end of year	\$	101

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District ranks as the 13th largest by enrollment among the 614 public school districts in the State. The District employs 661 non-certified and 945 certified employees to provide services to approximately 11,803 students and community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

COMPONENT UNITS

The Canton City Schools Digital Academy

The Canton City Schools Digital Academy (the “Digital Academy”) is a legally separate, conversion community school, served by a Board of Directors. The Digital Academy provides students within the District with curriculum and instruction via distance learning technology. The Board of Directors consists of the District’s Assistant to the Superintendent-Elementary Instruction, the District’s Director of Special Education, the District’s Director of Instructional Technology and Assessment and two additional Board members appointed by the District. The Canton City School District is the sponsoring School District of the Digital Academy under Ohio Law Section 3314. The Superintendent of the District serves as the Chief Administrative Officer of the Digital Academy and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the Digital Academy, the Academy’s purpose of servicing the students with the District, and the relationship between the Board of Education of the District and the Board of Directors of the Digital Academy, the Digital Academy is reflected as a component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Digital Academy at 617 McKinley Avenue SW, Canton, Ohio 44707.

The Canton Academy Community School

The Canton Academy Community School (the “Academy”) is a legally separate, conversion community school, served by a Board of Directors. The Academy is designed to meet the academic and mental health needs of high school students, grades 9 through 12, ages 14 through 22, who are unsuccessful in the traditional educational setting. Typically, they are identified as students with special needs or are “at highest risk” for academic failure. The Board of Directors consists of one member from each of the following organizations: Stark County Community Mental Health Board, Stark County Family Council, City of Canton, Stark County Department of Jobs and Family Services and Canton City Schools. The Canton City School District is the sponsoring School District of the Academy under Ohio Law Section 3314. The Superintendent of the District serves as the Chief Administrative Officer of the Academy and the Treasurer serves as the Chief Financial Officer. Based on the significant services provided by the District to the Academy, the Academy’s purpose of servicing the students within the District, and the relationship between the Board of Education of the District and the Board of Directors of the Academy, the Academy is reflected as a component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Academy at 617 McKinley Avenue SW, Canton, Ohio 44707.

PUBLIC ENTITY RISK POOL

The Stark County Schools Council of Government (the “COG”) is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the COG. All COG’s revenues are generated from charges for services. The COG has a Health Benefits Program which is a shared risk pool comprised of 39 Stark County entities, most of which are school districts.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

The District's nonmajor enterprise funds are:

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

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

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

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

D. Basis of Accounting

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

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgets

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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

F. Cash and Investments

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

During fiscal year 2005, investments were limited to federal agency securities, U.S. Treasury notes, repurchase agreements, U. S. Government money market mutual funds, commercial paper, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

The District has invested funds in STAR Ohio during fiscal year 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$476,625 which includes \$420,313 assigned from other District funds.

Cash in segregated accounts represents monies held in depository accounts for construction retainage. These funds are held by the District until successful completion of the related construction project. These monies are held outside the District's internal investment pool.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

G. Inventory

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

I. Interfund Balances

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

J. Compensated Absences

Compensated absences of the District consist of vacation leave and 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, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

N. Prepayments

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

O. Parochial Schools

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

P. Estimates

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Q. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. See Note 17 for further detail on the District's restricted assets at June 30, 2005 related to statutory reserves and see Note 10.C. for further detail on restricted assets related to QZAB sinking fund deposits maintained by the District.

R. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are tuition for adult education classes, sales for food service and charges for services 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.

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 year 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change In Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major governmental funds of the District as they were previously reported as of June 30, 2004 (amounts in 000's):

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Classroom Facilities</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ (10,505)	\$ 6,355	\$ 3,494	\$ 54,647	\$ 53,991
GASB Technical Bulletin No. 2004-2	<u>(660)</u>	<u>-</u>	<u>(197)</u>	<u>-</u>	<u>(857)</u>
Restated Fund Balances, June 30, 2004	<u>\$ (11,165)</u>	<u>\$ 6,355</u>	<u>\$ 3,297</u>	<u>\$ 54,647</u>	<u>\$ 53,134</u>

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits (amounts in 000's):

Major Funds

General \$ 10,707

Nonmajor Funds

Post Secondary Vocational Education	3
Public School Preschool	156
Disadvantaged Pupil Impact Aid	1,406
Summer Intervention	11
Alternative Schools	29
Vocational Education	53
Title I	507
Preschool Grants for Handicapped	7
Classroom Reduction	254
CAD H.B.	1
F.E.R.P.	41

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.

C. Compliance

Contrary to Ohio Revised Code Section 5705.41(D), the District did not properly certify the availability of funds for various expenditures prior to incurring the obligation.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash in Segregated Accounts

At June 30, 2005, the District had \$1.073 million on deposit in retainage accounts related to various construction projects. This amount is included on the financial statements as "cash in segregated accounts" and is included in deposits with financial institutions below.

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$2.103 million, exclusive of the \$8.290 million repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$2.778 million of the District's bank balance of \$3.128 million was exposed to custodial risk as discussed below, while \$0.350 million was covered by Federal Deposit Insurance Corporation.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2005, the District had the following investments and maturities (amounts in 000's):

Investment type	Balance at Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
Repurchase Agreement	\$ 8,290	\$ 8,290	\$ -	\$ -	\$ -	\$ -
STAR Ohio	7,350	7,350	-	-	-	-
FHLMC Discount Note	17,273	10,434	6,345	494	-	-
FHLB	13,808	6,570	4,438	2,800	-	-
FNMA	10,790	5,385	4,439	966	-	-
Commercial Paper	5,495	5,495	-	-	-	-
Treasury Note	4,616	-	-	-	-	4,616
U.S. Government Money Market	324	324	-	-	-	-
	<u>\$ 67,946</u>	<u>\$ 43,848</u>	<u>\$ 15,222</u>	<u>\$ 4,260</u>	<u>\$ -</u>	<u>\$ 4,616</u>

The weighted average maturity of investments is .82 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less. The District's investment policy limits investment in commercial paper to maturities of 180 days or less from the date of purchase.

Credit Risk: The District's investments, except for the repurchase agreement as discussed below and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. The District's investment policy limits investments in commercial paper to a rating of A1 by Standard's & Poor's and P1 by Moody's Investor Services at the date of purchase.

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

Concentration of Credit Risk: The District investment policy places limits on the amount that may be invested in any one issuer. Investments in federal agency securities may not exceed 70% of the District's portfolio at time of purchase. In addition, no more than 25% of investments in federal agency securities may be in callable agency securities. Investments in commercial paper may not exceed 25% of the District's portfolio at time of purchase.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

The following table includes the percentage of each investment type held by the District at June 30, 2005 (amounts in 000's):

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 8,290	12.20
STAR Ohio	7,350	10.82
FHLMC	17,273	25.42
FNMA	10,790	15.88
FHLB	13,808	20.32
Commercial Paper	5,495	8.09
Treasury Note	4,616	6.79
U.S. Government Money Market	324	0.48
	<u>\$ 67,946</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005 (amounts in 000's):

<u>Cash and Investments per note</u>	
Carrying amount of deposits	\$ 2,103
Investments	<u>67,946</u>
Total	<u>\$ 70,049</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 67,518
Business type activities	2,197
Private-purpose trust funds	101
Agency funds	<u>233</u>
Total	<u>\$ 70,049</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund loans receivable/payable consisted of the following at June 30, 2005, as reported on the fund statements (amounts in 000's):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 582
Bond Retirement	Nonmajor Governmental Funds	345

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 5 - INTERFUND TRANSACTIONS – (Continued)

The interfund receivable in the Bond Retirement fund and an interfund loan made to the District Managed Student Activity special revenue fund (a nonmajor governmental fund) of \$345,000 represent the fiscal year-end balance of manuscript bonds that were issued during fiscal year 2005.

In addition, the General fund advanced the nonmajor agency funds \$25,226 during fiscal year 2005 which is shown as a loan receivable in the General fund and a loan payable in the Agency fund.

- B.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund statements (amounts in 000's):

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 155
Internal Service Fund	30

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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-three percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2003. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

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, 2005, are available to finance fiscal year 2005 operations. The amount available as an advance at June 30, 2005 was \$1,457,830 in the general fund, \$170,000 in the debt service fund and \$64,040 in the permanent improvement capital projects fund (a nonmajor governmental fund). The amount available for advance at June 30, 2004 was \$1,344,000 in the general fund, \$212,000 in the debt service fund and \$80,000 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, 2005 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 2005 taxes were collected are (amounts in 000's):

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 661,386	76.64	\$ 667,602	77.15
Public Utility Personal	44,286	5.13	46,420	5.36
Tangible Personal Property	<u>157,315</u>	<u>18.23</u>	<u>151,310</u>	<u>17.49</u>
Total	<u>\$ 862,987</u>	<u>100.00</u>	<u>\$ 865,332</u>	<u>100.00</u>

Tax rate per \$1,000 of
assessed valuation:

Operations	\$52.20	\$60.10
Debt service	3.50	3.50
Permanent improvement	2.00	2.00
Classroom maintenance	0.50	0.50

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, loans 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	\$ 41,877
Accounts	125
Intergovernmental	16,392
Accrued interest	306
Loans	<u>25</u>
Total governmental activities	<u>\$ 58,725</u>

Business-Type Activities

Intergovernmental	<u>\$ 843</u>
Total business-type activities	<u>\$ 843</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 \$11.123 million of the governmental activities intergovernmental receivable due from the Ohio School Facilities Commission. This intergovernmental receivable will be collected over approximately two 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, 2005

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year-ended June 30, 2005, was as follows (amounts in 000's):

	Balance <u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2005</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 17,315	\$ -	\$ -	\$ 17,315
Construction in progress	<u>28,616</u>	<u>23,935</u>	<u>(24,848)</u>	<u>27,703</u>
Total capital assets, not being depreciated	<u>45,931</u>	<u>23,935</u>	<u>(24,848)</u>	<u>45,018</u>
Capital assets, being depreciated:				
Land improvements	4,807	-	-	4,807
Building/improvements	91,692	26,153	-	117,845
Furniture/equipment	6,671	94	(9)	6,756
Vehicles	<u>3,931</u>	<u>187</u>	<u>(91)</u>	<u>4,027</u>
Total capital assets, being depreciated	<u>107,101</u>	<u>26,434</u>	<u>(100)</u>	<u>133,435</u>
Less: accumulated depreciation				
Land improvements	(1,299)	(195)	-	(1,494)
Building/improvements	(27,252)	(2,786)	-	(30,038)
Furniture/equipment	(3,343)	(889)	9	(4,223)
Vehicles	<u>(3,373)</u>	<u>(224)</u>	<u>91</u>	<u>(3,506)</u>
Total accumulated depreciation	<u>(35,267)</u>	<u>(4,094)</u>	<u>100</u>	<u>(39,261)</u>
Governmental activities capital assets, net	<u>\$ 117,765</u>	<u>\$ 46,275</u>	<u>\$ (24,848)</u>	<u>\$ 139,192</u>
Business-Type Activities				
Capital assets, being depreciated:				
Furniture/equipment	\$ 972	\$ -	\$ -	\$ 972
Less: accumulated depreciation	<u>(654)</u>	<u>(54)</u>	<u>-</u>	<u>(708)</u>
Business-type activities capital assets, net	<u>\$ 318</u>	<u>\$ (54)</u>	<u>\$ -</u>	<u>\$ 264</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS – (Continued)

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

Instruction:	
Regular	\$ 1,848
Special	390
Support Services:	
Pupil	138
Instructional staff	242
Administration	309
Operations and maintenance of plant	229
Pupil transportation	194
Operation of non-instructional services	478
Extracurricular activities	<u>266</u>
Total depreciation expense	<u>\$ 4,094</u>

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior fiscal years, the District entered into capital lease agreements for 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 2005 fiscal year totaled \$226,416 and \$63,443, respectively. These amounts are reported as debt service payments of the general fund.

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, 2005 follows (amounts in 000's):

<u>Year Ending June 30</u>	<u>Amount</u>
2006	\$ 288
2007	288
2008	<u>168</u>
Total minimum lease payment	744
Less: amount representing interest	<u>(74)</u>
Present value of minimum lease payments	<u>\$ 670</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS

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

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the OSFC. OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2005, the total estimated cost of the Construction Project is approximately \$176 million, of which OSFC will pay approximately \$129 million.

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

The Series 2000 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. During fiscal year 2005, the District made \$375,000 in principal payments on the Series 2000 current interest bonds and advance refunded \$28.325 million of the remaining current interest bonds.

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, 2005 was 771,000. As of June 30, 2005, a total of \$734,000 in accreted interest on the capital appreciation bonds has been included on the statement of net assets.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The following is a schedule of activity for fiscal year 2005 on the Series 2000 general obligation bonds (amounts in 000's):

	Balance <u>June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2005</u>
Current interest bonds	\$ 29,125	\$ -	\$ (28,700)	\$ 425
Capital appreciation bonds	771	-	-	771
Accreted interest on capital appreciation bonds	<u>533</u>	<u>201</u>	<u>-</u>	<u>734</u>
Total	<u>\$ 30,429</u>	<u>\$ 201</u>	<u>\$ (28,700)</u>	<u>\$ 1,930</u>

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

<u>Fiscal Year Ending</u>	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ -	\$ 21	\$ 21	\$ 204	\$ 221	\$ 425
2007	-	21	21	176	249	425
2008	-	21	21	150	270	420
2009	-	20	20	129	291	420
2010	-	20	20	112	308	420
2011	<u>425</u>	<u>10</u>	<u>435</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 425</u>	<u>\$ 113</u>	<u>\$ 538</u>	<u>\$ 771</u>	<u>\$ 1,339</u>	<u>\$ 2,110</u>

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

The refunding issue is comprised of both current interest bonds, par value \$27.855 million, and capital appreciation bonds, par value \$470,000. The average interest rate on the current interest bonds is 4.10%. The capital appreciation bonds mature December 1, 2012 and December 1, 2013 (effective interest 22.126%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2005 was \$470,000. Total accreted interest of \$16,000 has been included in the statement of net assets.

The reacquisition price exceeded the net carrying amount of the old debt by \$2.314 million. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 17 years by \$1.690 million resulting in an economic gain of \$1.2 million.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

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

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

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

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2005</u>
Current interest bonds	\$ -	\$ 27,855	-	27,855
Capital appreciation bonds	-	470	-	470
Accreted interest on capital appreciation bonds	<u>-</u>	<u>16</u>	<u>-</u>	<u>16</u>
Total G.O. Bonds	<u>\$ -</u>	<u>\$ 28,341</u>	<u>\$ -</u>	<u>\$ 28,341</u>

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

<u>Fiscal Year</u> <u>Ending</u>	<u>Current Interest Bonds</u>			<u>Capital Appreciation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 605	\$ 1,500	\$ 2,105	\$ -	\$ -	\$ -
2007	175	1,285	1,460	-	-	-
2008	180	1,280	1,460	-	-	-
2009	185	1,274	1,459	-	-	-
2010	190	1,269	1,459	-	-	-
2011-2015	2,915	6,171	9,086	470	2,265	2,735
2016-2020	11,880	4,374	16,254	-	-	-
2021-2024	<u>11,725</u>	<u>1,208</u>	<u>12,933</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 27,855</u>	<u>\$ 18,361</u>	<u>\$ 46,216</u>	<u>\$ 470</u>	<u>\$ 2,265</u>	<u>\$ 2,735</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

<u>December 1</u> <u>of year</u>	(Amounts in 000's)		
	<u>QZAB</u> <u>Series 2000</u>	<u>QZAB</u> <u>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 year 2005, the District made \$1.234 million in sinking fund deposits. Since inception, a total of \$4.613 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. On the statement of net assets, the resources accumulated in the sinking fund are reported as a restricted asset since the condition underlying the restriction will not be met in the short or medium term.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

D. During fiscal year 2004, the District issued \$3.4 million in Series 2004 tax anticipation notes. During fiscal year 2002, the District issued \$6.165 million in Series 2002 tax anticipation notes. The Series 2004 notes bear annual interest rates ranging from 2.80%-4.75% and mature on December 1, 2009. The Series 2002 notes bear annual interest rates ranging from 3.25% - 5.00% and mature on June 1, 2013. The 2004 Series notes will be retired from future tax revenues from the general fund while the Series 2005 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. A summary of the tax anticipation note activity for the fiscal year ended June 30, 2005 follows (amounts in 000's):

	<u>Principal Outstanding June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding June 30, 2005</u>
Tax anticipation note	\$ 5,655	\$ -	\$ (535)	\$ 5,120
Tax anticipation note	<u>3,400</u>	<u>-</u>	<u>-</u>	<u>3,400</u>
Total	<u>\$ 9,055</u>	<u>\$ -</u>	<u>\$ (535)</u>	<u>\$ 8,520</u>

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>
2006	\$ 1,240	\$ 295	\$ 1,535
2007	1,260	247	1,507
2008	1,280	200	1,480
2009	1,305	157	1,462
2010	1,330	109	1,439
2011 - 2013	<u>2,105</u>	<u>129</u>	<u>2,234</u>
Total	<u>\$ 8,520</u>	<u>\$ 1,137</u>	<u>\$ 9,657</u>

E. During fiscal year 2004, the District joined the Stark County Schools COG for purposes of obtaining employee health benefits for certain employees (See Note 2.A. and Note 12.B.). The District entered into an agreement with the COG allowing the District to defer the payment of premiums for the period July 1, 2003 to December 31, 2003. These deferred premiums will be paid over the period July 1, 2005 through June 30, 2007 through an adjustment applied to the District's monthly insurance premiums for that period. The deferred insurance liability is recorded as a fund liability in the District's funds and on the statement of net assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

	Balance			Balance	Amounts
	June 30, 2004	Additions	Reductions	June 30, 2005	Due in
					One Year
Governmental Activities					
General obligation bonds:					
Current interest	\$ 29,125	\$ 27,855	\$ (28,700)	\$ 28,280	\$ 605
Capital appreciation	771	470	-	1,241	204
Accreted interest	533	217	-	750	221
QZAB's	16,100	-	-	16,100	-
Total G.O. bonds	<u>46,529</u>	<u>28,542</u>	<u>(28,700)</u>	<u>46,371</u>	<u>1,030</u>
Notes payable	9,055	-	(535)	8,520	1,240
Compensated absences payable	5,279	685	(1,340)	4,624	876
Deferred insurance liability	3,716	-	(1,272)	2,444	1,222
Capital lease obligation	<u>896</u>	<u>-</u>	<u>(226)</u>	<u>670</u>	<u>243</u>
Total governmental activities long-term liabilities	<u>\$ 65,475</u>	<u>\$ 29,227</u>	<u>\$ (32,073)</u>	62,629	<u>\$ 4,611</u>
Less: deferred charge on refunding				(2,283)	
Add: unamortized premium				<u>2,738</u>	
Total on statement of net assets				<u>\$ 63,084</u>	
Business-Type Activities					
Compensated absences	\$ 80	\$ 19	\$ (2)	\$ 97	\$ 7
Deferred insurance liability	<u>112</u>	<u>-</u>	<u>(38)</u>	<u>74</u>	<u>37</u>
Total business-type activities long-term liabilities	<u>\$ 192</u>	<u>\$ 19</u>	<u>\$ (40)</u>	<u>\$ 171</u>	<u>\$ 44</u>

Compensated absences and the deferred insurance liability will be paid from the fund from which the employee is paid.

G. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$39.611 million (including available funds of \$8.102 million) and an unvoted debt margin of \$865,000.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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.

The District has offered an early retirement incentive plan (ERIP) to employees. At June 30, 2005, a liability in the amount of \$771,000 remains for approximately seventy-five employees who took advantage of the ERIP. This ERIP liability has been recorded on the fund financial statements as a component of "compensated absences payable" and on the government-wide financial statements as a component of "long-term liabilities". In addition to the ERIP, the District has offered retiring employees a health care reimbursement arrangement (HRA). Under the HRA, employees receive reimbursement for qualifying health care costs incurred, by year, in varying amounts between \$500 and \$5,300. The HRA is effective until January 15, 2012. Payments made under the HRA have been recorded in the fund from which the employee was paid. At fiscal year-end, no liability for future HRA contributions has been recorded since the actual contributions are contingent upon future events that are not measurable.

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 for the first 120 days, one-fifth of sick leave for days between 121-215 and an additional 2 days for an employee with greater than 215 days accumulated to a maximum payout of 51 days.

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	2,000,000	1,000
Building and contents	216,046,016	10,000
Boiler and machinery	5,000,000	5,000
Fleet:		
Liability	1,000,000	250
Uninsured motorist	1,000,000	250
Comprehensive	1,000,000	250
Collision	1,000,000	250
Umbrella liability	6,000,000	0

**CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - RISK MANAGEMENT - (Continued)

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from fiscal year 2004.

B. Shared Risk Pool

The District is a participant in the Stark County Schools Council of Government (the “COG”) for the purpose of obtaining benefits at a reduced premium for health care benefits. For the entire fiscal year, the District purchased insurance benefits through the COG for administrators and certified employees. For the period October 1, 2004 through June 30, 2005, the District purchased insurance benefits through the COG for classified employees. For the Period July 1, 2004 through September 30, 2004, classified employees were covered under the Districts self-insurance program (see Note 12.C below).

The District’s insurance program for health care is administered by Mutual Health Services Company. Payments are made to the COG for monthly attachment point, monthly stop-loss premiums, and administrative charges. The fiscal agent of the COG is the Stark County Education Service Center. The Treasurer of the Stark County Educational Service Center pays Mutual Health Services monthly for the actual amount of claims processed, the stop-loss premium, and the administrative charges.

C. Health Care Self-Insurance Program

For the period July 1, 2004 through September 30, 2004, the District provided health care benefits to its classified employees through the self-insurance program. Effective October 1, 2004, all employees were provided health care benefits through the COG (see Note 12.B). The self-insurance program for health care was administered by Aultcare. Payments were made to 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.

There is no claims liability reported in the internal service fund at June 30, 2005 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. All claims for fiscal 2005 were paid by June 30, 2005. 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>
2005	\$ 605	\$ 549	\$ (1,154)	\$ -
2004	977	4,174	(4,546)	605

**CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - RISK MANAGEMENT - (Continued)

D. 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>Year</u>	<u>Balance</u>	<u>Year Claims</u>	<u>Payments</u>	<u>Balance</u>
2005	\$ 919	\$ -	\$ (464)	\$ 455
2004	725	716	(522)	919

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

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 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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 for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$2.110 million, \$2.240 million and \$2.124 million, respectively; 43.91% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$1.184 million represents the unpaid contribution for fiscal year 2005 and is recorded as a liability.

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, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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 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. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% 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 years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$7.754 million, \$7.917 million, and \$8.825 million, respectively; 82.73% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$1.339 million represents the unpaid contribution for fiscal year 2005 and is recorded as a liability. Contributions to the DC and Combined Plans for fiscal 2005 were \$59,545 made by the District and \$125,397 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or Combined Plans and their dependants are eligible for health care coverage. 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 fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$0.554 million during fiscal 2005.

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

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 14 - POSTEMPLOYMENT BENEFITS – (Continued)

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% 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 2005, the minimum pay has been established at \$27,400; however, the surcharge is capped at 2% of each employer’s SERS salaries. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. Net health care costs for the year ending June 30, 2005 were \$178.221 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168% of next year’s projected net health care costs of \$158.776 million. SERS had 58,123 participants receiving health care benefits at June 30, 2005. For the District, the amount to fund health care benefits, including surcharge, equaled \$0.747 million during the 2005 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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	\$ (2,234)
Net adjustment for revenue accruals	353
Net adjustment for expenditure accruals	2,251
Net adjustment for other sources/uses	(932)
Adjustment for encumbrances	<u>933</u>
GAAP basis	<u>\$ 371</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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.

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 and capital acquisition. Disclosure of this information is required by state statute (amounts in 000's):

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance		
as of June 30, 2004	\$ (354)	\$ (41,656)
Current year set-aside requirement	1,699	1,699
Qualifying off-sets		(232)
Qualifying disbursements	<u>(1,258)</u>	<u>(1,186)</u>
Total	<u>\$ 87</u>	<u>\$ (41,375)</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 17 - STATUTORY RESERVES – (Continued)

During fiscal year 2001, the District issued \$46.706 million related to the Ohio Schools Facilities Commission project under taken by the District. Those proceeds may be used to reduce the capital acquisition reserve until the debt proceeds are spent.

NOTE 18 - CONTRACTUAL COMMITMENTS

As of June 30, 2005, the District entered into various contractual commitments for the OSFC Project described in Note 10A. A summary of the primary contractual commitments outstanding at June 30, 2005, follows (amounts in 000's):

<u>Project</u>	<u>Contractual Cost Estimate</u>	<u>Total Estimated Costs at June 30</u>	<u>Remaining Contractual Commitment</u>
Claredon Elementary	\$ 7,085	\$ (476)	\$ 6,609
Harter Elementary	7,852	(4,052)	3,800
McGregor Elementary	6,872	(504)	6,368
Mason Elementary	79	(79)	-
Summit Elementary	8,167	(1,400)	6,767
Youtz Elementary	4,626	(2,354)	2,272
Hartford Middle	6,675	(5,642)	1,033
Souers Middle	288	(288)	-
McKinley High School	14,726	(4,208)	10,518
Timken High School	10,000	(8,126)	1,874
Fawcett Stadium	<u>574</u>	<u>(574)</u>	<u>-</u>
Totals	<u>\$ 66,944</u>	<u>\$ (27,703)</u>	<u>\$ 39,241</u>

NOTE 19 - SIGNIFICANT SUBSEQUENT EVENTS

On December 1, 2005, the District made its fifth sinking fund payment on the QZAB's for the eventual retirement the QZAB Series 2000 and 2001.

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**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

<u>Federal Grantor/ Sub Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Expenditures</u>	<u>Non-Cash Expenditures</u>
U.S. Department of Education						
<i>(Direct)</i>						
<i>Impact Aid</i>	84.041	N/A	\$29,786	-	\$29,786	-
<i>Federal Pell Grant Program</i>	84.063	N/A	569,660	-	560,672	-
<i>(Passed through the Ohio Department of Education)</i>						
<i>Adult Education State Grant Program</i>	84.002	043711ABS103C 043711ABS104 043711ABS105 043711ABS104C 043711ABS205	6,000 12,611 366,689 20,673 35,480	- - - - -	6,000 27,494 366,689 20,673 35,480	- - - - -
<i>Total Adult Education State Grant Program</i>			441,453	-	456,336	-
<i>Title I Grants to Local Educational Agencies</i>	84.010	043711C1S104 043711C1S103 013711C1S102 043711C1SD04 043711C1S105 043711C1SK04 043711C1SK05 043711C1SN05 043711C1SD05	596,701 - - 41,511 5,018,515 - 149,975 24,225 76,553	- - - - - - - - -	1,539,475 9,350 12,899 54,261 4,716,667 1,810 161,568 21,215 69,417	- - - - - - - - -
<i>Total Title I Grants to Local Educational Agencies</i>			5,907,480	-	6,586,662	-
<i>Special Education Cluster: Special Education Grants to States</i>	84.027	0437116BSD04P 0437116BSD05P 0437116BSF04 0437116BSF05 0437116BPB05	1,858 18,750 221,939 1,814,010 30,500	- - - - -	5,062 15,721 307,082 1,528,855 6,692	- - - - -
<i>Total Special Education Grants to States</i>			2,087,057	-	1,863,412	-
<i>Special Education Preschool Grants</i>	84.173	043711PGD704P 043711PGS104 043711PGS105	14,229 - 154,310	- - -	14,229 18,101 138,057	- - -
<i>Total Special Education Preschool Grants</i>			168,539	-	170,387	-
<i>Total Special Education Cluster</i>			2,255,596	-	2,033,799	-
<i>Vocational Education Basic Grants to States</i>	84.048	04371120C104 04371120C105 04371120C205 04371120A505	17,930 364,320 67,831 11,000	- - - -	64,492 351,707 67,647 11,000	- - - -
<i>Total Vocational Education Basic Grants to States</i>			461,081	-	494,846	-
<i>Safe and Drug Free Schools and Communities National Program</i>	84.184C	043711T4S104P 043711T4S104 043711T4S105	3,013 13,858 1,250	- - -	161 7,732 4,656	- - -
<i>Total Safe and Drug Free Schools and Communities National Program</i>			18,121	-	12,549	-

CONTINUED

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Sub Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
Safe and Drug Free Schools and Communities State Grants	84.186	043711DRS104	\$12,844	-	\$23,724	-
		043711DRS105	75,880	-	64,180	-
<i>Total Safe and Drug Free School and Communities State Grants</i>			88,724	-	87,904	-
Education for Homeless Children and Youth	84.196	043711HCS104	24,800	-	33,584	-
		043711HCS105	39,278	-	54,107	-
		043711HCSP04	11,622	-	16,603	-
<i>Total Education for Homeless Children and Youth</i>			75,700	-	104,294	-
Even Start State Educational Agencies	84.213	043711EVS103	-	-	10,341	-
		043711EVS104	33,401	-	18,880	-
		043711EVS105	278,067	-	279,101	-
<i>Total Even Start State Educational Agencies</i>			311,468	-	308,322	-
<i>Tech-Prep Education</i>	84.243	0437113ETC03	14,000	-	2,938	-
21st Century Community Learning Centers	84.287	043711T1S104	18,644	-	53,385	-
		043711T1S105	360,057	-	363,609	-
<i>Total 21st Century Community Learning Centers</i>			378,701	-	416,994	-
State Grants for Innovative Programs	84.298	043711C2S104	16,363	-	21,339	-
		043711C2S105	85,893	-	81,633	-
<i>Total State Grants for Innovative Programs</i>			102,256	-	102,972	-
Education Technology State Grants	84.318	043711TJS104	-	-	4,743	-
		043711TJS105	77,764	-	91,223	-
		043711TJSL04	-	-	59,390	-
		043711TJSL05	1,116,324	-	1,075,003	-
<i>Total Education Technology State Grants</i>			1,194,088	-	1,230,359	-
Comprehensive School Reform Demonstration	84.332	043711RFCC05	15,000	-	6,414	-
		043711RFK203	16,239	-	16,239	-
		043711RFK204	13,025	-	10,005	-
		043711RFS304	60,750	-	54,674	-
<i>Total Comprehensive School Reform Demonstration</i>			105,014	-	87,332	-
<i>English Language Acquisition Grants</i>	84.365	043711T3S204	-	-	22	-
Improving Teacher Quality State Grants	84.367	043711TRS104	91,814	-	247,707	-
		043711TRS105	892,335	-	893,664	-
<i>Total Improving Teacher Quality State Grants</i>			984,149	-	1,141,371	-
Safe and Drug Free Schools National Programs	84.184L	S184L020084	46,907	-	46,907	-
		S184L020084	203,431	-	177,641	-
		S184L020084	238,695	-	181,941	-
<i>Total Safe and Drug Free Schools National Program</i>			489,033	-	406,489	-
Fund for Improvement of Education(Genesis)	84.215K	U215K040102	244,827	-	237,231	-
Fund for Improvement of Education (Smaller Learning Communities)	84.215L	V215L042071	37,536	-	37,536	-
<i>Total Fund for Improvement of Education</i>			282,363	-	274,767	-

CONTINUED

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Sub Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	P334A000231 P334A000231	\$153,285 372,471	- -	\$150,867 373,305	- -
<i>Total Gaining Early Awareness and Readiness for Undergraduate Programs</i>			<u>525,756</u>	<u>-</u>	<u>524,172</u>	<u>-</u>
<i>School Renovation Grant</i>	84.352A	102	<u>163,532</u>	<u>-</u>	<u>211,352</u>	<u>-</u>
<i>(Passed through the National Council for Community and Education Partnership)</i>						
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	GU20	<u>49,282</u>	<u>-</u>	<u>40,497</u>	<u>-</u>
Total U.S. Department of Education			<u>14,447,243</u>	<u>-</u>	<u>15,114,435</u>	<u>-</u>
U.S. Department of Agriculture (Direct)						
<i>Child Care Food Program</i>	10.558	N/A	16,327	-	12,895	-
<i>(Passed through the Ohio Department of Education)</i>						
Child Nutrition Cluster:						
Food Distribution	10.550	N/A	-	\$283,173	-	\$283,214
School Breakfast Program	10.553	N/A	598,532	-	598,532	-
National School Lunch	10.555	N/A	<u>2,470,444</u>	<u>-</u>	<u>2,470,444</u>	<u>-</u>
<i>Total Child Nutrition Cluster</i>			<u>3,068,976</u>	<u>283,173</u>	<u>3,068,976</u>	<u>283,214</u>
Total U.S. Department of Agriculture			<u>3,085,303</u>	<u>283,173</u>	<u>3,081,871</u>	<u>283,214</u>
U.S. Department of Labor (Passed through Service Delivery Area No. 23)						
Workforce Investment Act - Youth	17.259	N/A N/A N/A	217 2,627 16,684	- - -	87 678 16,684	- - -
<i>Total Workforce Investment Act - Youth</i>			<u>19,528</u>	<u>-</u>	<u>17,449</u>	<u>-</u>
Total U.S. Department of Labor			<u>19,528</u>	<u>-</u>	<u>17,449</u>	<u>-</u>
U.S. Department of Health and Human Services (Passed through the Ohio Department of Mental Retardation and Development Disabilities)						
Medical Assistance Program	93.778	N/A	1,550,388	-	1,550,388	-
State Childrens Health Insurance Program	93.767	N/A	102,112	-	102,113	-
<i>(Passed through Ohio Department of Jobs & Family Services)</i>						
Temporary Assistance for Needy Families	93.558	009-06 009-06	19,296 -	- -	15,510 21,607	- -
<i>Total Temporary Assistance for Needy Families</i>			<u>19,296</u>	<u>-</u>	<u>37,117</u>	<u>-</u>
Total U.S. Department of Health & Human Services			<u>1,671,796</u>	<u>-</u>	<u>1,689,618</u>	<u>-</u>

CONTINUED

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Sub Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Energy (Passed through the Ohio Department of Development) <i>Energy Grant</i>	81.041	01-11	\$4,760	-	\$4,760	-
Total U.S. Department of Energy			4,760	-	4,760	-
Corporation for National and Community Service (Passed through the Ohio Department of Education) Learn and Serve America - School and Community Based Programs	94.004	043711SVS104 043711SVS105	-	-	60	-
			13,730	-	14,919	-
Total Corporation for National and Community Service			13,730	-	14,979	-
Total			\$19,242,360	\$283,173	19,923,112	\$283,214

The accompanying notes are an integral part of this schedule.

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

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Auditor of State Betty Montgomery

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

Canton City School District
Stark County
617 McKinley Avenue SW
Canton, Ohio 44707

To the Board of Education:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Canton City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 24, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2005-001. In a separate letter to the District's management dated March 24, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Canton City School District
Stark County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

March 24, 2006



Auditor of State Betty Montgomery

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

Canton City School District
Stark County
617 McKinley Avenue SW
Canton, Ohio 44707

To the Board of Education:

Compliance

We have audited the compliance of Canton City School District, Stark County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

The District's basic financial statements include the operations of Canton Academy Community School, which received \$16,766 in federal awards which is not included in the Federals Awards Receipts and Expenditure Schedule for the year ended June 30, 2005. Our audit of federal awards, described below, did not include the operations of Canton Academy Community School because the component unit is legally separate from the primary government, which this report addresses, and because it expended less than \$500,000 of federal awards for the year ended June 30, 2005, it was not subject to OMB Circular A-133 audit requirements.

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

In our opinion, the Canton City School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when 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 matters involving the internal control over federal compliance not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 24, 2006.

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



Betty Montgomery
Auditor of State

March 24, 2006

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #84.002 – Adult Education State Grant Program; CFDA #84.010 - Title I Grants to Local Education Agencies; CFDA #93.778 – Medical Assistance Program
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 606,190 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2005-001

Material Noncompliance

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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

FINDING NUMBER 2005-001 (Continued)

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the District can authorize the drawing of a warrant for the payment of the amount due. The District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the District.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During the fiscal year ended June 30, 2005, 24% of the expenditures tested were not certified by the Treasurer prior to incurring the obligation. It was also found that the District chooses not to use "Then and Now" certificates. The District should certify the availability of funds for expenditure and also consider implementing the use of "Then and Now" Certificates to certify funds pursuant to Ohio Rev. Code Section 5705.41(D).

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**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
APRIL 13, 2006**