

Canton Local School District
Stark County, Ohio

Audited Financial Statements

June 30, 2010



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Canton Local School District, Stark County, prepared by Rea & Associates, Inc., for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

March 15, 2011

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**CANTON LOCAL SCHOOL DISTRICT
STARK COUNTY
JUNE 30, 2010**

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 13, 2010

To the Board of Education
Canton Local School District
Canton, OH 44707

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Canton Local School District (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2010, and the respective changes in financial position and the respective budgetary comparisons for the general fund and other grants 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 December 13, 2010 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Hea & Associates, Inc.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The management's discussion and analysis of the Canton Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2010 are as follows:

- In total, net assets of governmental activities decreased \$467,108 which represents a 268.17% decrease from fiscal year 2009.
- General revenues accounted for \$20,077,444 in revenue or 70.89% of all revenues. Program specific revenues in the form of charges for services and sales and grants and contributions accounted for \$8,245,018 or 29.11% of total revenues of \$28,322,462.
- The District had \$28,789,570 in expenses related to governmental activities; only \$8,245,018 of these expenses was offset by program specific charges for services and sales, grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$20,077,444 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and the other grants fund. The general fund had \$21,658,026 in revenues and \$21,599,128 in expenditures. During fiscal 2010, the general fund's fund deficit balance decreased \$58,898 from \$3,203,254 to \$3,144,356.
- The other grants fund had \$1,982,027 in revenues and \$1,962,085 in expenditures. During fiscal year 2010, the other grants fund's fund balance, increased \$19,942.

Using These Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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 2010?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-20 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 or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 21 and 22. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-54 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets at June 30, 2010 and June 30, 2009.

	Net Assets	
	Governmental Activities	Governmental Activities
	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Current and other assets	\$ 10,425,218	\$ 10,018,641
Capital assets, net	<u>5,112,104</u>	<u>5,534,798</u>
Total assets	<u>15,537,322</u>	<u>15,553,439</u>
<u>Liabilities</u>		
Current liabilities	12,289,309	11,773,740
Long-term liabilities	<u>3,889,305</u>	<u>3,953,883</u>
Total liabilities	<u>16,178,614</u>	<u>15,727,623</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	4,701,115	4,837,998
Restricted	534,574	651,768
Unrestricted (deficit)	<u>(5,876,981)</u>	<u>(5,663,950)</u>
Total net assets (deficit)	<u>\$ (641,292)</u>	<u>\$ (174,184)</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the District's liabilities exceeded assets by \$641,292. Of this total, \$534,574 is restricted in use.

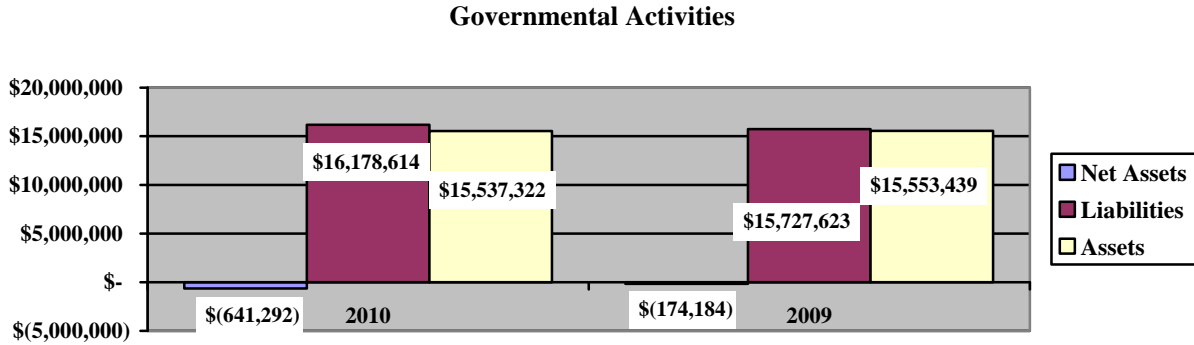
At year end, capital assets represented 32.90% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2010, were \$4,701,115. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$534,574, represents resources that are subject to external restriction on how they may be used. The remaining balance is a deficit of unrestricted net assets.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The graph below shows the District's assets, liabilities and net assets at June 30, 2010 and 2009.



The table below shows the change in net assets for fiscal years 2010 and 2009.

	Change in Net Assets	
	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 4,371,985	\$ 3,475,979
Operating grants and contributions	3,849,192	4,193,139
Capital grants and contributions	23,841	20,600
General revenues:		
Property taxes	7,970,524	7,729,458
Grants and entitlements	11,957,965	11,101,716
Investment earnings	1,357	17,579
Miscellaneous	<u>147,598</u>	<u>359,538</u>
 Total revenues	 <u>\$ 28,322,462</u>	 <u>\$ 26,898,009</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 11,328,148	\$ 10,855,094
Special	3,066,431	2,225,604
Vocational	1,864,033	1,914,821
Adult / continuing	1,000	250
Other	781,828	1,393,778
Support services:		
Pupil	1,952,694	1,733,533
Instructional staff	1,256,288	1,225,432
Board of education	21,646	25,268
Administration	1,923,441	1,977,557
Fiscal	307,353	304,439
Business	290,233	316,318
Operations and maintenance	2,459,486	2,593,039
Pupil transportation	1,076,416	1,089,768
Central	366,938	380,329
Operation of non-instructional services:		
Other non-instructional services	53,125	56,463
Food service operations	1,166,894	1,237,710
Extracurricular activities	805,625	719,548
Interest and fiscal charges	<u>67,991</u>	<u>83,338</u>
Total expenses	<u>28,789,570</u>	<u>28,132,289</u>
Change in net assets	(467,108)	(1,234,280)
Net assets (deficit) at beginning of year	<u>(174,184)</u>	<u>1,060,096</u>
Net assets (deficit) at end of year	<u>\$ (641,292)</u>	<u>\$ (174,184)</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$467,108. Total governmental expenses of \$28,789,570 were offset by program revenues of \$8,245,018 and general revenues of \$20,077,444. Program revenues supported 28.64% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and unrestricted grants and entitlements. These revenue sources represent 70.37% of total governmental revenue.

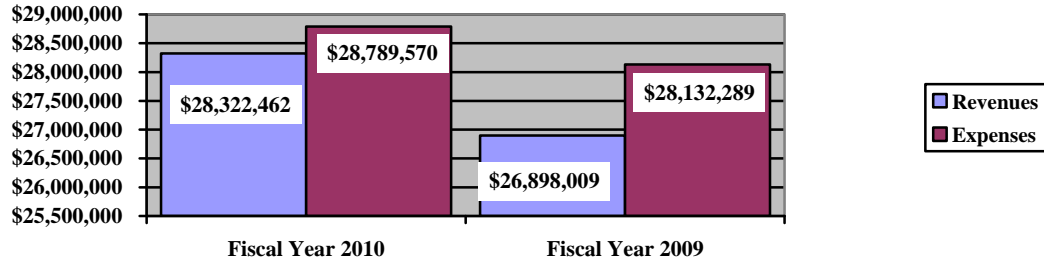
The largest expense of the District is for instructional programs. Instruction expenses totaled \$17,041,440 or 59.19% of total governmental expenses for fiscal year 2010.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The graph below presents the District's governmental activities revenues and expenses for fiscal years 2010 and 2009.

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>	Total Cost of Services <u>2009</u>	Net Cost of Services <u>2009</u>
Program expenses				
Instruction:				
Regular	\$ 11,328,148	\$ 9,041,636	\$ 10,855,094	\$ 8,353,081
Special	3,066,431	1,095,033	2,225,604	775,455
Vocational	1,864,033	1,365,506	1,914,821	1,392,261
Adult / continuing	1,000	(17,664)	250	(37)
Other	781,828	747,425	1,393,778	1,226,161
Support services:				
Pupil	1,952,694	1,397,239	1,733,533	1,253,529
Instructional staff	1,256,288	867,696	1,225,432	960,508
Board of education	21,646	21,646	25,268	25,268
Administration	1,923,441	1,528,998	1,977,557	1,510,210
Fiscal	307,353	51,507	304,439	166,727
Business	290,233	286,900	316,318	316,318
Operations and maintenance	2,459,486	2,050,326	2,593,039	2,310,143
Pupil transportation	1,076,416	1,028,820	1,089,768	974,697
Central	366,938	339,641	380,329	348,913
Operation of non-instructional services:				
Other non-instructional services	53,125	26,944	56,463	(12,829)
Food service operations	1,166,894	49,940	1,237,710	142,500
Extracurricular activities	805,625	594,968	719,548	616,328
Interest and fiscal charges	67,991	67,991	83,338	83,338
Total expenses	<u>\$ 28,789,570</u>	<u>\$ 20,544,552</u>	<u>\$ 28,132,289</u>	<u>\$ 20,442,571</u>

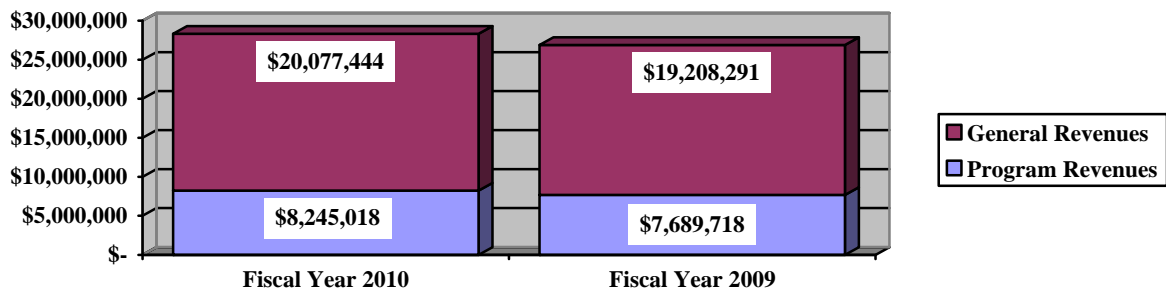
**CANTON LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The dependence upon tax and other general revenues for governmental activities is apparent, 71.78% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 71.36%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2010 and 2009.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund deficit balance of \$2,951,265, which is a decrease in fund balance from last year's deficit total of \$2,866,324. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance (Deficit) <u>June 30, 2010</u>	Fund Balance (Deficit) <u>June 30, 2009</u>	Increase / (Decrease)
General	\$ (3,144,356)	\$ (3,203,254)	\$ 58,898
Other grants	(136,688)	(156,630)	19,942
Other governmental	<u>329,779</u>	<u>493,560</u>	<u>(163,781)</u>
Total	<u>\$ (2,951,265)</u>	<u>\$ (2,866,324)</u>	<u>\$ (84,941)</u>

General Fund

The District's general fund, deficit fund balance increased \$58,898 from a deficit balance of \$3,203,254 to a deficit balance of \$3,144,356. The table that follows assists in illustrating the financial activities and fund balance of the general fund. In fiscal year 2010, the District earned significantly less interest income because of lower rates of interest and fewer funds available for investing. Intergovernmental revenue increased in fiscal year 2010 due to increased reimbursements from the State to offset the phase out of tangible personal property taxes. Other revenues decreased in fiscal year 2010 because of decreased fees for services and staff contributions. Expenditures decreased slightly due to staff reductions and other cost-saving measures.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>2010</u> <u>Amount</u>	<u>2009</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 7,374,466	\$ 8,429,499	\$ (1,055,033)	(12.52) %
Tuition	1,132,777	932,139	200,638	21.52 %
Earnings on investments	1,357	17,579	(16,222)	(92.28) %
Intergovernmental	12,232,579	11,985,846	246,733	2.06 %
Other revenues	<u>911,447</u>	<u>1,135,180</u>	<u>(223,733)</u>	(19.71) %
Total	<u>\$ 21,652,626</u>	<u>\$ 22,500,243</u>	<u>\$ (847,617)</u>	(3.77) %
<u>Expenditures</u>				
Instruction	\$ 13,306,003	\$ 13,949,429	\$ (643,426)	(4.61) %
Support services	7,628,035	7,702,934	(74,899)	(0.97) %
Operation of non-instructional	3,546	5,256	(1,710)	(32.53) %
Extracurricular activities	661,544	588,915	72,629	12.33 %
Debt service	<u>-</u>	<u>32,493</u>	<u>(32,493)</u>	(100.00) %
Total	<u>\$ 21,599,128</u>	<u>\$ 22,279,027</u>	<u>\$ (679,899)</u>	(3.05) %

Other Grants Fund

The other grants fund had \$1,982,027 in revenues and \$1,962,085 in expenditures. During fiscal year 2010, the other grants fund's fund balance, increased \$19,942.

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 2010, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$22,515,403, which was higher than the original budgeted revenues and other financing sources estimate of \$22,045,555. Actual revenues and other financing sources for fiscal 2010 were \$21,955,074 which was \$560,329 lower than the final budgeted revenues.

General fund original appropriations of \$22,081,317 were increased to \$22,496,053 in the final budget. The actual budget basis expenditures for fiscal year 2010 totaled \$21,687,478, which was \$808,575 less than the final budgeted appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the District had \$5,112,104 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

The following table shows fiscal 2010 balances compared to 2009:

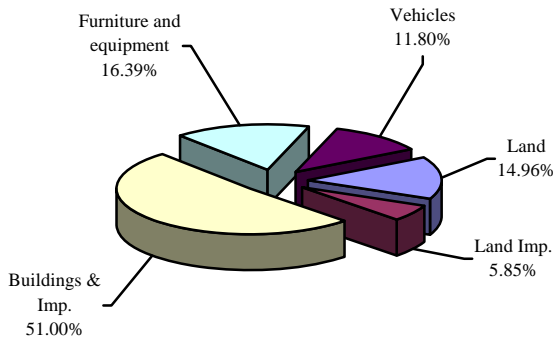
**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2010	2009
Land	\$ 764,570	\$ 764,570
Land improvements	299,040	324,082
Building and improvements	2,607,320	2,799,031
Furniture and equipment	837,960	970,210
Vehicles	603,214	676,905
Total	\$ 5,112,104	\$ 5,534,798

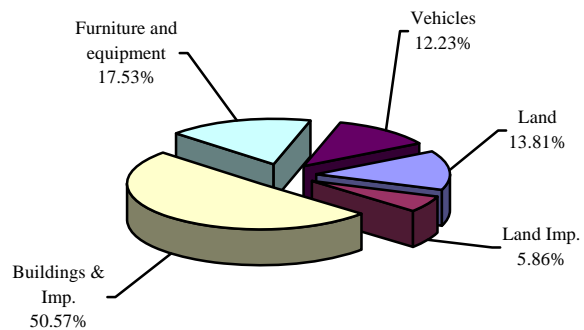
The overall decrease in capital assets of \$422,694 is due to depreciation expense of \$468,694 exceeding capital outlays of \$46,000.

The graphs below present the District's capital assets for fiscal years 2010 and 2009.

Capital Assets - Governmental Activities 2010



Capital Assets - Governmental Activities 2009



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

Debt Administration

At June 30, 2010, the District had \$342,329 in capital lease obligations outstanding, \$752,274 in energy conservation notes outstanding, \$90,451 in OWDA loans outstanding and \$30,000 in tax anticipation notes outstanding. Of this total, \$353,812 is due within one year and \$861,242 is due in greater than one year. The following table summarizes the outstanding obligations for fiscal year 2010 compared to 2009.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Outstanding Debt, at Year End

	<u>Governmental Activities 2010</u>	<u>Governmental Activities 2009</u>
Energy conservation notes	\$ 752,274	\$ 801,677
Tax anticipation notes	30,000	60,000
OWDA loan	90,451	-
Capital lease obligations	<u>342,329</u>	<u>598,140</u>
 Total	 <u>\$ 1,215,054</u>	 <u>\$ 1,459,817</u>

At June 30, 2010, the District's overall legal debt margin was \$280,468,990 with an unvoted debt margin of \$25,242,209.

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

Current Financial Related Activities

The voters of the District approved a temporary levy renewal with an increase on May 2, 2006. Increased tax collections started in January, 2007. The term of the levy is for five years. Funds are to be used for operational costs, building maintenance and repairs, and equipment replacement. Nine tenths of a mill (approximately \$260,000 annually) is dedicated to the purchase of new classroom technology and related equipment.

As a result of the continuing decline in student enrollment, the Board decided to implement several cost-saving measures: restructure the elementary and middle school so that the Amos McDannel Elementary could be closed as of June 30, 2010. Beginning with the 2010-11 school year, the fifth grade will be relocated from Walker Elementary to Faircrest Middle School; and the kindergarten and first grade will be relocated from Amos McDannel Elementary to Walker Elementary. The District will now operate one elementary, one middle school, and one high school. In addition, the Board reduced a total of 20 part and full time staff for the 2010-11 school year. A retirement incentive for teachers was implemented that reduced another 7 staff members. These steps will provide financial stability for the 2010-11 school year and help prepare the District for fiscal year 2011 and fiscal year 2012 when there will be a new State budget.

The District is anticipating significant reductions to the State Foundation program beginning in fiscal year 2011.

The District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. A. Michael Bichsel, Treasurer, Canton Local School District, 4526 Ridge Avenue SE, Canton, OH 44707.

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

STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
Assets:	
Receivables:	
Taxes	\$ 8,442,935
Accounts	9,710
Intergovernmental	1,957,268
Inventory held for resale	15,305
Capital assets:	
Land	764,570
Depreciable capital assets, net	4,347,534
Capital assets, net	5,112,104
 Total assets	 15,537,322
 Liabilities:	
Cash overdraft	299,044
Accounts payable	201,858
Accrued wages and benefits	2,996,471
Pension obligation payable	760,009
Intergovernmental payable	294,974
Unearned revenue	7,683,425
Accrued interest payable	1,832
Loans payable	51,696
Long-term liabilities:	
Due within one year	704,114
Due within more than one year	3,185,191
Total liabilities	16,178,614
 Net assets:	
Invested in capital assets, net of related debt	4,701,115
Restricted for:	
Capital projects	118,528
State funded programs	23,084
Federally funded programs	277,109
Public school support	36,381
Student activities	18,664
Other purposes	60,808
Unrestricted (deficit)	(5,876,981)
 Total net assets (deficit)	 \$ (641,292)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 11,328,148	\$ 1,948,162	\$ 334,411	\$ 3,939	\$ (9,041,636)
Special	3,066,431	240,431	1,730,967	-	(1,095,033)
Vocational	1,864,033	179,727	318,800	-	(1,365,506)
Adult/continuing.	1,000	-	18,664	-	17,664
Other	781,828	-	34,403	-	(747,425)
Support services:					
Pupil.	1,952,694	341,080	214,375	-	(1,397,239)
Instructional staff	1,256,288	172,655	215,937	-	(867,696)
Board of education	21,646	-	-	-	(21,646)
Administration.	1,923,441	199,471	194,972	-	(1,528,998)
Fiscal.	307,353	255,846	-	-	(51,507)
Business.	290,233	2,702	631	-	(286,900)
Operations and maintenance	2,459,486	358,558	33,162	17,440	(2,050,326)
Pupil transportation.	1,076,416	-	46,854	742	(1,028,820)
Central	366,938	7,215	18,362	1,720	(339,641)
Operation of non-instructional services:					
Other non-instructional services	53,125	14,725	11,456	-	(26,944)
Food service operations	1,166,894	440,916	676,038	-	(49,940)
Extracurricular activities.	805,625	210,497	160	-	(594,968)
Interest and fiscal charges	67,991	-	-	-	(67,991)
Totals	\$ 28,789,570	\$ 4,371,985	\$ 3,849,192	\$ 23,841	(20,544,552)
General revenues:					
Property taxes levied for:					
General purposes					7,446,796
Debt service.					84,133
Capital outlay.					439,595
Grants and entitlements not restricted to specific programs					11,957,965
Investment earnings					1,357
Miscellaneous					147,598
Total general revenues					20,077,444
Change in net assets					(467,108)
Net assets (deficit) at beginning of year					(174,184)
Net assets (deficit) at end of year.					\$ (641,292)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Other Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Receivables:				
Taxes	\$ 8,045,795	\$ -	\$ 397,140	\$ 8,442,935
Accounts	9,710	-	-	9,710
Loans	65,543	-	-	65,543
Intergovernmental	276,615	1,524,103	156,550	1,957,268
Inventory held for resale	-	-	15,305	15,305
Due from other funds	157,313	-	692,460	849,773
Total assets	<u>\$ 8,554,976</u>	<u>\$ 1,524,103</u>	<u>\$ 1,261,455</u>	<u>\$ 11,340,534</u>
Liabilities:				
Cash overdraft	\$ -	\$ 299,044	\$ -	\$ 299,044
Accounts payable	65,742	114,832	21,284	201,858
Accrued wages and benefits	2,600,666	198,692	197,113	2,996,471
Compensated absences payable	164,351	26,361	11,270	201,982
Loans payable	-	117,239	-	117,239
Pension obligation payable	601,710	50,375	107,924	760,009
Intergovernmental payable	220,078	10,408	64,488	294,974
Unearned revenue	7,333,625	-	349,800	7,683,425
Deferred revenue	713,160	-	173,864	887,024
Due to other funds	-	843,840	5,933	849,773
Total liabilities	<u>11,699,332</u>	<u>1,660,791</u>	<u>931,676</u>	<u>14,291,799</u>
Fund balances:				
Reserved for encumbrances	53,466	3,683	122,349	179,498
Reserved for inventory	-	-	15,305	15,305
Reserved for tax revenue unavailable for appropriation	211,200	-	14,200	225,400
Unreserved, undesignated (deficit), reported in:				
General fund	(3,409,022)	-	-	(3,409,022)
Special revenue funds	-	(140,371)	130,867	(9,504)
Capital projects funds	-	-	47,058	47,058
Total fund balances (deficit)	<u>(3,144,356)</u>	<u>(136,688)</u>	<u>329,779</u>	<u>(2,951,265)</u>
Total liabilities and fund balances	<u>\$ 8,554,976</u>	<u>\$ 1,524,103</u>	<u>\$ 1,261,455</u>	<u>\$ 11,340,534</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Total governmental fund balances		\$ (2,951,265)
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,112,104
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes receivable	\$ 534,110	
Intergovernmental receivable	<u>352,914</u>	
Total		887,024
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	2,472,269	
Capital lease obligations	342,329	
Energy conservation notes payable	752,274	
Tax anticipation notes payable	30,000	
OWDA loan	90,451	
Accrued interest payable	<u>1,832</u>	
Total		<u>(3,689,155)</u>
Net assets of governmental activities		<u><u>\$ (641,292)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Other Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 7,374,466	\$ -	\$ 518,958	\$ 7,893,424
Tuition.	1,132,777	1,620,589	-	2,753,366
Earnings on investments	1,357	-	505	1,862
Charges for services	603,058	-	457,273	1,060,331
Extracurricular.	88,278	-	180,721	268,999
Classroom materials and fees	470	-	68,086	68,556
Rental income	77,443	-	-	77,443
Contributions and donations	-	13,040	29,244	42,284
Other local revenues	142,198	32,398	48,267	222,863
Intergovernmental - state	12,158,555	316,000	352,213	12,826,768
Intergovernmental - federal	74,024	-	3,040,860	3,114,884
Total revenues.	<u>21,652,626</u>	<u>1,982,027</u>	<u>4,696,127</u>	<u>28,330,780</u>
Expenditures:				
Current:				
Instruction:				
Regular.	9,200,294	989,696	776,312	10,966,302
Special	1,736,352	-	1,279,565	3,015,917
Vocational	1,644,104	-	166,841	1,810,945
Adult/continuing	-	-	1,000	1,000
Other	725,253	-	78,229	803,482
Support services:				
Pupil	1,240,320	553,193	140,465	1,933,978
Instructional staff	856,580	228,270	173,476	1,258,326
Board of education	21,646	-	-	21,646
Administration	1,518,242	181,611	237,266	1,937,119
Fiscal	305,690	-	-	305,690
Business.	286,731	3,502	-	290,233
Operations and maintenance	2,104,444	1,671	63,815	2,169,930
Pupil transportation	962,936	-	16,351	979,287
Central	331,446	4,038	27,536	363,020
Operation of non-instructional services:				
Other non-instructional services	3,546	104	43,268	46,918
Food service operations	-	-	1,164,950	1,164,950
Extracurricular activities	661,544	-	114,167	775,711
Facilities acquisition and construction	-	-	263,716	263,716
Debt service:				
Principal retirement.	-	-	338,152	338,152
Interest and fiscal charges	-	-	68,188	68,188
Total expenditures	<u>21,599,128</u>	<u>1,962,085</u>	<u>4,953,297</u>	<u>28,514,510</u>
Excess/deficiency of revenues over/under expenditures.	<u>53,498</u>	<u>19,942</u>	<u>(257,170)</u>	<u>(183,730)</u>
Other financing sources:				
Proceeds from sale of assets.	5,400	-	-	5,400
Proceeds of loan.	-	-	93,389	93,389
Total other financing sources	<u>5,400</u>	<u>-</u>	<u>93,389</u>	<u>98,789</u>
Net change in fund balances	58,898	19,942	(163,781)	(84,941)
Fund balances (deficit) at beginning of year . .	<u>(3,203,254)</u>	<u>(156,630)</u>	<u>493,560</u>	<u>(2,866,324)</u>
Fund balances (deficit) at end of year	<u>\$ (3,144,356)</u>	<u>\$ (136,688)</u>	<u>\$ 329,779</u>	<u>\$ (2,951,265)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds \$ (84,941)

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

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

Capital asset additions	\$	46,000	
Current year depreciation		(468,694)	
Total			(422,694)

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

Taxes		77,100	
Tuition		191,834	
Accounts		(71,823)	
Intergovernmental		(194,160)	
Total			2,951

Proceeds of loans are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenue as they increase liabilities on the statement of net assets. (93,389)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 338,152

In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due. 197

Some expenses reported in the statement of activities, such as compensated absences and future retirement obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (207,384)

Change in net assets of governmental activities \$ (467,108)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 7,331,919	\$ 7,488,656	\$ 7,488,656	\$ -
Tuition	1,047,786	1,070,185	1,070,185	-
Earnings on investments	1,329	1,357	1,357	-
Classroom materials and fees	460	470	470	-
Rental income	75,822	77,443	77,443	-
Charges for service	592,629	605,298	605,298	-
Other local revenues	209,656	214,138	214,138	-
Intergovernmental - state	12,076,706	12,334,874	12,334,874	-
Intergovernmental - federal	72,475	74,024	74,024	-
Total revenue	<u>21,408,782</u>	<u>21,866,445</u>	<u>21,866,445</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	9,205,097	9,377,989	9,253,082	124,907
Special	1,678,952	1,710,486	1,576,616	133,870
Vocational	1,677,988	1,709,504	1,656,682	52,822
Other	1,191,975	1,214,363	892,482	321,881
Support Services:				
Pupil	1,254,138	1,277,693	1,272,574	5,119
Instructional staff	868,776	885,094	854,119	30,975
Board of education	25,918	26,405	21,707	4,698
Administration	1,478,128	1,505,891	1,517,702	(11,811)
Fiscal	307,606	313,384	300,230	13,154
Business	328,859	335,036	287,359	47,677
Operations and maintenance	2,240,815	2,282,902	2,180,167	102,735
Pupil transportation	911,130	928,243	966,877	(38,634)
Central	340,064	346,451	329,688	16,763
Operation of non-instructional services	-	-	3,546	(3,546)
Extracurricular activities	571,871	582,612	574,647	7,965
Total expenditures	<u>22,081,317</u>	<u>22,496,053</u>	<u>21,687,478</u>	<u>808,575</u>
Excess of revenues over (under) expenditures	<u>(672,535)</u>	<u>(629,608)</u>	<u>178,967</u>	<u>808,575</u>
Other financing sources:				
Refund of prior year's expenditures	81,487	83,229	83,229	-
Refund of prior year's receipts	549,999	560,329	-	(560,329)
Sale of capital assets	5,287	5,400	5,400	-
Total other financing sources	<u>636,773</u>	<u>648,958</u>	<u>88,629</u>	<u>(560,329)</u>
Net change in fund balance	(35,762)	19,350	267,596	248,246
Fund balance (deficit) at beginning of year.	(231,344)	(231,344)	(231,344)	-
Prior year encumbrances appropriated. . .	35,318	35,318	35,318	-
Fund balance (deficit) at end of year	<u>\$ (231,788)</u>	<u>\$ (176,676)</u>	<u>\$ 71,570</u>	<u>\$ 248,246</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
OTHER GRANTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition	\$ 1,275,936	\$ 660,114	\$ 660,114	\$ -
Contributions and donations	25,205	13,040	13,040	-
Other local revenues	172,833	31,268	31,268	-
Intergovernmental - state	610,797	316,000	316,000	-
Total revenue	<u>2,084,771</u>	<u>1,020,422</u>	<u>1,020,422</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	860,190	260,330	981,855	(721,525)
Support Services:				
Pupil	392,478	152,406	441,839	(289,433)
Instructional staff	192,575	74,780	216,795	(142,015)
Administration	147,918	57,439	166,521	(109,082)
Business	3,111	1,208	3,502	(2,294)
Operations and maintenance	-	-	1,671	(1,671)
Central	3,587	1,393	4,038	(2,645)
Operation of non-instructional services	339	132	382	(250)
Total expenditures	<u>1,600,198</u>	<u>547,688</u>	<u>1,816,603</u>	<u>(1,268,915)</u>
Excess of revenues over (under) expenditures	<u>484,573</u>	<u>472,734</u>	<u>(796,181)</u>	<u>(1,268,915)</u>
Other financing sources:				
Refund of prior year's receipts	(724)	(281)	(815)	(534)
Total other financing sources	<u>(724)</u>	<u>(281)</u>	<u>(815)</u>	<u>(534)</u>
Net change in fund balance	483,849	472,453	(796,996)	(1,269,449)
Fund balance (deficit) at beginning of year.	(478,675)	(478,675)	(478,675)	-
Prior year encumbrances appropriated. . .	7,716	7,716	7,716	-
Fund balance (deficit) at end of year	<u>\$ 12,890</u>	<u>\$ 1,494</u>	<u>\$ (1,267,955)</u>	<u>\$ (1,269,449)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Due from other governments.	\$ -	\$ 65,902
Receivables:		
Loans	117,239	-
Total assets.	117,239	\$ 65,902
Liabilities:		
Accounts payable.	-	\$ 285
Loans payable.	-	65,543
Intergovernmental payable	-	74
Total liabilities	-	\$ 65,902
Net assets:		
Held in trust for scholarships	117,239	
Total net assets	\$ 117,239	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 137
Gifts and contributions	25,027
Total additions	25,164
 Deductions:	
Scholarships awarded	20,238
Change in net assets	4,926
Net assets at beginning of year	112,313
Net assets at end of year	\$ 117,239

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District ranks as the 203rd largest by total enrollment among the 934 public school districts and community schools in the State. The District employs 113 non-certified and 191 certified employees to provide services to approximately 2,449 students in grades K through 12 and various community groups. The District is located in Canton Township, Stark County, Ohio and serves an area of approximately 25 square miles. The District operates one elementary school, one middle school and one high school.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has three component units.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

The following organizations are described due to their relationship to the District:

DISCRETELY PRESENTED COMPONENT UNITS

The Five R's Academy

The Five R's Academy (the "Academy") is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy is a conversion school that is designed for high school students that will use a rigorous and relevant curriculum that incorporates at the high infusion of technology to reach a diverse student population. The Academy is governed by a five member Board of Directors. The District appoints three of the five Board of Directors. The Academy Board of Directors may adopt budgets, hire and fire employees and receive funding from the Ohio Department of Education. The District is able to impose its will upon the operations for the Academy, therefore, the financial activity of the Academy is presented as a discretely presented component unit of the District. The District has elected to not present the financial activity of the Academy in these basic financial statements, as the Academy's activity is deemed immaterial to the District's financial statements and the Academy's fund balance was zero as of June 30, 2010.

The District suspended operations of the Academy effective July 1, 2010.

The Canton Local Digital Academy

The Canton Local Digital Academy (the "Digital Academy") is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapter 3314. The Digital Academy is a conversion school that addresses the needs of students who desire a program of online instruction in an independent environment that does not include the most ancillary components of a more traditional education. The Digital Academy is governed by a five member Board of Directors. The District appoints three of the five Board of Directors. The Digital Academy Board of Directors may adopt budgets, hire and fire employees and receive funding from the Ohio Department of Education. The District is able to impose its will upon the operations for the Digital Academy, therefore, the Digital Academy is a component unit of the District.

The District suspended operations of the Digital Academy effective July 1, 2008.

Aspire Academy

The Aspire Academy ("Aspire") is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapter 3314. Aspire is a conversion school that is designed for middle school students who have a desire for, and whose education can be optimized by, a program that includes a focus on rigor, relevance, relationships, respect, and responsibility built into an interdisciplinary hands-on collaborative approach to education. Academy is governed by a five member Board of Directors. The District appoints three of the five Board of Directors. Aspire's Board of Directors may adopt budgets, hire and fire employees and receive funding from the Ohio Department of Education. The District is able to impose its will upon the operations for Aspire, therefore, Aspire is a component unit of the District.

The District suspended operations of Aspire effective July 1, 2008.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

JOINTLY GOVERNED ORGANIZATIONS

Stark/Portage Area Computer Consortium (SPARCC)

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

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

Stark County Tax Incentive Review Council (SCTIRC)

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

PUBLIC ENTITY RISK POOLS

Risk Sharing Pool

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

Insurance Purchasing Pool

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

The following is 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.

Other grants fund - The other grants fund is used to account for the proceeds of specific revenue sources, except for state and federal grants that are legally restricted to expenditures for specified purposes. The most significant grant recorded in this fund is the Stark multi-county juvenile attention center grant.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; (b) food service operations; (c) grants and other resources whose use is restricted to a particular purpose; and (d) the accumulation of resources for the repayment of general obligation debt.

PROPRIETARY FUNDS

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, are 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 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2010, but which were levied to finance fiscal year 2011 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2010 are recorded as deferred revenue in the governmental funds..

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

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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

E. Budgets

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

Tax Budget:

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

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered cash balances from the preceding year. The certificate of estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts from the certificate of estimated resources that was in effect at the time the original and final appropriations were passed by the Board of Education.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

Appropriations:

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

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

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

Lapsing of Appropriations:

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. The pool had a cash overdraft of \$299,044 at June 30, 2010. This overdraft is reported as a liability on the financial statements.

During fiscal year 2010, investments were limited to 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 2010. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2010.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$1,357, which includes \$0 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents and a component of the cash overdraft. Investments with an initial maturity of more than three months are reported as investments.

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

G. Inventory

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

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

H. Capital Assets

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans to cover negative cash balances are classified as “interfund receivables/payables” and “loans receivable/payable.” The District had various loans between funds to cover negative cash balances in the nonmajor governmental funds. See Note 18. Loans, both interfund and non-interfund, between governmental funds are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

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

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

K. Accrued Liabilities and Long-Term Obligations

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

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

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, inventory and tax revenue unavailable for appropriation. The reserve for tax revenue unavailable for appropriation represents taxes recognized as revenue under GAAP, but not available for appropriation under State statute.

M. Net Assets

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

The 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 using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved on the fund financial statements by an amount equal to the carrying value of the asset.

O. 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 LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

P. Vocational Education

The District has entered into a career technical education agreement with the Sandy Valley Local School District, Perry Local School District and the Osnaburg Local School District to provide career technical education programs for students of the three participating districts. The District is the principal agency for the programs and is responsible for the physical facilities of the programs. For fiscal year 2010, in accordance with the agreement, the District was to receive a service charge equal to \$237,000 from the Sandy Valley Local School District, \$237,000 for the Perry Local School District and \$95,000 from the Osnaburg Local School District related to providing these programs. Actual service charges are reduced by all State aid received by the District for Sandy Valley Local School District, Perry Local School District and Osnaburg Local School District students attending the District for these programs.

Q. Interfund Activity

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

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2010.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the District has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the District.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the District.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2010 included the following individual fund deficits:

<u>Major fund</u>	<u>Deficit</u>
General fund	\$ 3,144,356
Other grants fund	136,688
<u>Nonmajor governmental funds</u>	
Food service	42,965
Uniform supplies	3,168
Public school preschool	259
Project head start	8,948
Stimulus Title II-D	340
Drug-free schools	927

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 result from adjustments for accrued liabilities and cash overdrafts of the internal investment pool (see Note 18).

C. Compliance

1. Contrary to Ohio Revised Code Section 5705.10, the District has negative cash balances at year end and throughout the year.

Many of the negative fund balances at June 30, 2010 are due to the requirement of the various grants that have been awarded to the district. The terms of the grants require the expenditure of funds by a certain date while not always allowing sufficient time for the district to be reimbursed. In the case of the Multi-County Juvenile Attention Center Fund, the cost of all services are paid, then the participating districts are invoiced for their costs after the services have been provided and paid. The General Fund does not have adequate resources to advance funds to these grants.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

2. Contrary to Ohio Revised Code 5705.41(B), the District had expenditures exceeding appropriations throughout the year.

This issue is related to the negative fund balances. Certain funds are required to be spent before the revenues are received, resulting in a negative fund balance. Appropriations cannot exceed the amount of revenue received so the appropriations are limited to the amount of revenue received. This causes the expenditures to exceed the appropriation level. The General Fund does not have adequate resources to advance to this fund to avoid having expenditures exceed appropriations.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

A. Cash on Hand

At year end, the District had \$300 in undeposited cash on hand which is included on the financial statements of the District as part of the cash overdraft liability.

B. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all District deposits was \$(712,620). The District had an actual cash overdraft of the investment pool of \$299,044 (net of investments and cash on hand) at June 30, 2010. This overdraft is reported as a liability on the financial statements. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, the District had a bank balance of \$119,928. The entire bank balance was covered by FDIC.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2010, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 413,276	\$ 413,276
Total	<u>\$ 413,276</u>	<u>\$ 413,276</u>

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

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 413,276	100.00
Total	<u>\$ 413,276</u>	<u>100.00</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ (712,620)
Investments	413,276
Cash on hand	<u>300</u>
Total	<u>\$ (299,044)</u>
 <u>Cash overdraft per statement of net assets</u>	
Governmental activities	<u>\$ (299,044)</u>
Total	<u>\$ (299,044)</u>

NOTE 5 - 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 property, public utility property, and certain tangible personal (used in business) property located in the District. Real property tax revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, 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 revenues received in calendar year 2010 represent the collection of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien on December 31, 2008, were levied after April 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, 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 LOCAL SCHOOL DISTRICT
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 5 - 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, 2010, are available to finance fiscal year 2010 operations. The amount available as an advance at June 30, 2010 was \$211,200 in the general fund and \$14,200 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2009 was \$325,390 in the general fund, \$21,540 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2010 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second Half Collections		2010 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 252,132,670	79.16	\$ 239,308,150	85.06
Public utility personal	36,040,460	11.31	41,160,840	14.63
Tangible personal property	<u>30,348,838</u>	<u>9.53</u>	<u>885,820</u>	<u>0.31</u>
Total	<u>\$ 318,521,968</u>	<u>100.00</u>	<u>\$ 281,354,810</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$48.20		\$48.20	
Permanent improvements	1.90		1.90	

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 6 - RECEIVABLES

Receivables at June 30, 2010 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets are as follows:

Governmental activities:

Taxes	\$ 8,442,935
Accounts	9,710
Intergovernmental	<u>1,957,268</u>
Total	<u>\$ 10,409,913</u>

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

NOTE 7 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During a prior fiscal year, the District entered into capitalized lease agreements for the acquisition of computer equipment and buses.

These leases meet the criteria of capital leases as defined by FASB Codification, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, the leases were accounted for as a capital outlay expenditure and other financing source in the general fund. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements and as a reduction of the lease liability in the government-wide financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by lease have been capitalized in the statement of net assets in the amount of \$1,239,025 which is equal to the present value of the future minimum lease payments as of the date of inception. Accumulated depreciation as of June 30, 2010 was \$973,788, leaving a current book value of \$265,237. A corresponding liability was recorded in the statement of net assets. Principal payments in the 2010 fiscal year totaled \$255,811. This amount is reflected as debt service principal retirement in the permanent improvement fund (a nonmajor governmental fund).

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2010:

<u>Year Ending June 30,</u>	<u>Equipment</u>
2011	\$ 285,190
2012	39,573
2013	<u>39,574</u>
Total minimum lease payment	364,337
Less: amount representing interest	<u>(22,008)</u>
Present value of minimum lease payments	<u>\$ 342,329</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	<u>Balance</u> <u>07/01/09</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/10</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 764,570	\$ -	\$ -	\$ 764,570
Total capital assets, not being depreciated	<u>764,570</u>	<u>-</u>	<u>-</u>	<u>764,570</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,223,527	-	-	1,223,527
Buildings and improvements	12,233,873	-	-	12,233,873
Furniture and equipment	2,727,041	46,000	-	2,773,041
Vehicles	1,786,227	-	-	1,786,227
Total capital assets, being depreciated	<u>17,970,668</u>	<u>46,000</u>	<u>-</u>	<u>18,016,668</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(899,445)	(25,042)	-	(924,487)
Buildings and improvements	(9,434,842)	(191,711)	-	(9,626,553)
Furniture and equipment	(1,756,831)	(178,250)	-	(1,935,081)
Vehicles	(1,109,322)	(73,691)	-	(1,183,013)
Total accumulated depreciation	<u>(13,200,440)</u>	<u>(468,694)</u>	<u>-</u>	<u>(13,669,134)</u>
Governmental activities capital assets, net	<u>\$ 5,534,798</u>	<u>\$ (422,694)</u>	<u>\$ -</u>	<u>\$ 5,112,104</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 220,198
Special	18,327
Vocational	39,847
<u>Support services:</u>	
Pupil	2,470
Instructional staff	3,206
Administration	3,219
Operations and maintenance	37,865
Pupil transportation	92,323
Central	1,038
Operation of non-instructional services	6,207
Extracurricular activities	28,640
Food service operations	<u>15,354</u>
Total depreciation expense	<u>\$ 468,694</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2010, the following changes occurred in governmental activities long-term obligations:

	Balance			Balance	Due in
	<u>07/01/09</u>	<u>Increase</u>	<u>Decrease</u>	<u>06/30/10</u>	<u>One Year</u>
Compensated absences	\$ 2,393,260	\$ 516,585	\$ (283,963)	\$ 2,625,882	\$ 321,281
Early retirement incentive	-	48,369	-	48,369	29,021
Energy conservation notes	801,677	-	(49,403)	752,274	50,507
Tax anticipation notes	60,000	-	(30,000)	30,000	30,000
OWDA loan	-	93,389	(2,938)	90,451	5,723
Pollution remediation obligation	100,806	-	(100,806)	-	-
Capital lease obligations	<u>598,140</u>	<u>-</u>	<u>(255,811)</u>	<u>342,329</u>	<u>267,582</u>
Total	<u>\$ 3,953,883</u>	<u>\$ 658,343</u>	<u>\$ (722,921)</u>	<u>\$ 3,889,305</u>	<u>\$ 704,114</u>

The capital lease obligation will be paid from the permanent improvement fund (a nonmajor governmental fund). Compensated absences and the early retirement incentive will be paid from the fund from which the employee is paid, primarily the general fund and food service fund (a nonmajor governmental fund).

- B. During fiscal year 2008, the District issued energy conservation notes to provide for energy improvements to various District buildings. The primary source of repayment of these notes is through energy savings as a result of the improvements.

Payments of principal and interest relating to the energy conservation notes are recorded as expenditures in the debt service fund (a nonmajor governmental fund). The unmatured obligations at year end are accounted for in the statement of net assets. The energy conservation project was primarily for various building maintenance and repairs, which have not been capitalized by the District. The District has capitalized \$38,660 in equipment spent from the note proceeds, the remaining expenditures were expensed as repairs and maintenance costs.

The following is a description of the District's energy conservation notes outstanding as of June 30, 2010:

<u>Purpose</u>	<u>Interest</u>	<u>Issue</u>	<u>Maturity</u>	<u>Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u>
	<u>Rate</u>	<u>Date</u>	<u>Date</u>	<u>07/01/09</u>	<u>in 2010</u>	<u>in 2010</u>	<u>06/30/10</u>
Energy conservation notes	4.47%	12/14/07	12/1/22	<u>\$ 801,677</u>	<u>\$ -</u>	<u>\$ (49,403)</u>	<u>\$ 752,274</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

- C. During fiscal year 2008, the District issued tax anticipation notes for \$90,000. These notes are a general obligation of the District, for which the full faith and credit is pledged for repayment. These notes are considered a long-term obligation since the proceeds are used for capital acquisition and construction. Payments of principal and interest relating to the tax anticipation notes are recorded as expenditures in the permanent improvement fund (a nonmajor governmental fund).

The following is a description of the notes payable outstanding at June 30, 2010:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 07/01/09</u>	<u>Issued in 2010</u>	<u>Retired in 2010</u>	<u>Balance 06/30/10</u>
Tax anticipation notes	3.11%	4/24/08	12/1/10	\$ 60,000	\$ -	\$ (30,000)	\$ 30,000

- D. The following is a summary of the District's future annual debt service requirements to maturity for the tax anticipation notes and energy conservation notes:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 80,507	\$ 32,964	\$ 113,471
2012	51,636	30,215	81,851
2013	52,790	27,881	80,671
2014	53,970	25,495	79,465
2015	55,176	23,056	78,232
2016 - 2020	294,938	76,735	371,673
2021 - 2023	<u>193,257</u>	<u>13,086</u>	<u>206,343</u>
Total	<u>\$ 782,274</u>	<u>\$ 229,432</u>	<u>\$ 1,011,706</u>

- E. During fiscal year 2010, the District entered into a debt financing arrangement through the Ohio Water Development Authority (OWDA) to fund the well project at Walker Elementary. The amounts due to the OWDA are being paid from the permanent improvement fund (a nonmajor governmental fund).

The following is a description of the OWDA loan outstanding as of June 30, 2010:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 07/01/09</u>	<u>Issued in 2010</u>	<u>Retired in 2010</u>	<u>Balance 06/30/10</u>
OWDA Loan	0.00%	1/1/10	7/1/29	\$ -	\$ 93,389	\$ (2,938)	\$ 90,451

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the District's future annual debt service requirements to maturity for the OWDA loan:

<u>Fiscal Year Ending</u>	<u>Principal</u>
2011	\$ 5,273
2012	4,669
2013	4,669
2014	4,669
2015	4,669
2016 - 2020	23,348
2021 - 2025	23,348
2026 - 2030	<u>19,806</u>
 Total	 <u>\$ 90,451</u>

- F.** The pollution remediation obligation includes a liability for one project: the Walker Elementary well project. The District's Walker Elementary School requires pollution remediation related to the Ohio Voluntary Action Program (ORC 3746). The original well at Walker Elementary is approximately 49 years old, and has been repaired and re-cased by the District numerous times. During fiscal year 2009, the District discovered that the well casing was allowing contamination into the water. A new well was drilled, but it was later discovered that the new well did not provide a sufficient volume of water. The District decided to deepen and retest the well. The test results showed a positive result for coli form. The EPA required that the District install a chlorination system with holding tanks.

During fiscal year 2010, the project was completed. The cost of the project was \$120,479. The District received a \$93,389 loan from OWDA and a \$27,500 American Recovery and Reinvestment Act grant to help finance the project.

G. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530, which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the in the District's legal margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2010, are an overall debt margin of \$280,468,990 and an unvoted debt margin of \$25,242,209.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made to certified and classified employees for one-fourth of accrued, but unused sick leave credit up to a maximum 79 days.

B. Early Retirement Incentive

The District offered two early retirement incentives during the fiscal year. Eligible District employees had the choice to participate in only one.

The first option, option A, was a one-time cash retirement incentive equal to a percentage of the employee's 2009-2010 severance pay as calculated at the time of retirement. Payment of this enhanced severance pay will be paid in two payments. The first payment will be equal to 70 percent of the employee's 2009-2010 severance pay as calculated at the time of retirement and will be paid no later than sixty days from the date of termination. The second payment will be equal to 60 percent of the employee's 2009-2010 severance pay as calculated at the time of retirement and will be paid in August 2011. Employees who enrolled in the early retirement incentive plan must have submitted written notification to the Board on or before December 4, 2009. If this cash retirement incentive is implemented and an employee elects this option, he/she must waive any rights to option B and agree to not be considered for rehire. Five employees took advantage of this early retirement incentive option in fiscal year 2010.

The second option, option B, is an early retirement incentive plan for State Teacher's Retirement System of Ohio (STRS Ohio) employees who are eligible for retirement under STRS Ohio guidelines and retire effective at the end of the fiscal year 2010. This is a one time opportunity for those eligible in fiscal years 2010. Employees who enroll in the early retirement incentive plan must submit written notification to the Board on or before December 4, 2009. If this STRS early retirement incentive is implemented and an employee elects this option, he/she must waive any rights to option A and their severance pay contained in option A and agree to not be considered for rehire. Two employees took advantage of this early retirement incentive option in fiscal year 2010.

C. Insurance Benefits

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees and natural disasters. During fiscal year 2010, the District contracted with Ohio Casualty Insurance Company for education liability, commercial auto coverage, property, general and excess liability insurance. The Ohio Casualty Insurance Company also covers boiler and machinery, inland marine, audio/visual equipment and musical instruments. Coverages under these policies are as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage Amount</u>
Ohio Casualty Insurance	Commercial Property	\$89,382,200
	Computers and Equipment	2,056,956
	Musical Instruments	310,413
	Commercial Auto - Garage Operations	2,000,000
	Non Auto - Garage Operations	1,000,000
	Uninsured Motorists Bodily Injury	60,000
	Uninsured Motorist Property Damage	7,500
	General Liability, in aggregate	5,000,000
	General Liability, per occurrence	5,000,000
	Fire Damage	100,000
	Medical Expense	5,000

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

B. Employee Health Benefits

The District has contracted with Stark County Schools Council of Governments (a shared risk pool) (Note 2) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District's Board of Education pays all but \$74 of the monthly premium for family coverage and all but \$30 for single coverage. The \$74 and \$30 are paid by the employee. For fiscal year 2010, the District cost for paid premium for medical and dental was \$1,209 for family coverage and \$497 for single coverage, per month.

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

C. Workers' Compensation

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 11 - RISK MANAGEMENT - (Continued)

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

NOTE 12 - PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$407,201, \$297,338 and \$314,509, respectively; 53.35 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 12 - PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$1,577,631, \$1,587,590 and \$1,605,409, respectively; 83.10 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$36,769 made by the District and \$26,263 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$82,169, \$206,441 and \$212,843, respectively; 53.35 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$24,215, \$24,533 and \$22,661, respectively; 53.35 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$121,356, \$122,122 and \$123,493, respectively; 83.10 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenues, 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).

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and the other grants fund are as follows:

	Net Change in Fund Balance	
	<u>General fund</u>	<u>Other grants fund</u>
Budget basis	\$ 267,596	\$ (796,996)
Net adjustment for revenue accruals	(213,819)	841,126
Net adjustment for expenditure accruals	(62,936)	(32,835)
Net adjustment for other sources/uses	(83,229)	815
Adjustment for encumbrances	<u>151,286</u>	<u>7,832</u>
GAAP basis	<u>\$ 58,898</u>	<u>\$ 19,942</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 16 - STATUTORY RESERVES

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 16 - STATUTORY RESERVES - (Continued)

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

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition/ Maintenance</u>
Set-aside balance as of June 30, 2009	\$ (334,405)	\$ -
Current year set-aside requirement	409,170	409,170
Current year offsets	-	(442,165)
Qualifying disbursements	<u>(256,327)</u>	<u>(1,018,938)</u>
Total	<u>\$ (181,562)</u>	<u>\$ (1,051,933)</u>
Balance carried forward to fiscal year 2011	<u>\$ (181,562)</u>	<u>\$ -</u>

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

NOTE 17 - CONTRACTUAL COMMITMENTS

As of June 30, 2010, the District had the following contractual commitments outstanding. A summary of the primary contractual commitments follows:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Paid Through June 30, 2010</u>	<u>Remaining Contract Amount</u>
Stanley Miller Construction	\$ 161,896	\$ (145,070)	\$ 16,826
Pelton Environmental	<u>7,864</u>	<u>(7,000)</u>	<u>864</u>
Total	<u>\$ 169,760</u>	<u>\$ (152,070)</u>	<u>\$ 17,690</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 18 - INTERFUND LOANS PAYABLE / RECEIVABLE

The District had various loans, both interfund and non-interfund, at June 30, 2010, to cover cash overdrafts of various major and nonmajor governmental funds and an agency fund. Loans between governmental funds are reported as “interfund loans receivable/payable” and loans between governmental funds and the private purpose trust funds and agency funds are reported as “loans receivable/payable.” The District as a whole had a cash overdraft of the investment pool of \$299,044. This cash overdraft is reflected as a liability on the financial statements. All available cash and investments of the internal investment pool were used to offset a portion of the overall cash overdraft. A summary of the loan balances at June 30, 2010 follows:

	Interfund Loan <u>Receivable</u>	Interfund Loan <u>Payable</u>	Loans <u>Receivable</u>	Loans <u>Payable</u>
General fund	\$ 157,313	\$ -	\$ 65,543	\$ -
Other grants fund	-	843,840	-	117,239
Other governmental funds	692,460	5,933	-	-
Private purpose trust fund	-	-	117,239	-
Agency funds	-	-	-	65,543
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 849,773</u>	<u>\$ 849,773</u>	<u>\$ 182,782</u>	<u>\$ 182,782</u>

NOTE 19 – COST CUTTING PLAN TO IMPROVE CASH FLOW

Management has adopted and planned several cost-saving measures to improve the District’s cash flow in the near future. As noted previously in the Management’s Discussion and Analysis, the Amos McDannel Elementary was closed as of June 30, 2010 to consolidate students and reduce future expenditures. In addition management has planned to sell this building by auction during the 2011 fiscal year. Approximately 27 full and part-time positions were eliminated and not replaced for the 2011 fiscal year, in part to the closing of the elementary, additional reductions in forces, and retirement incentives. Further, the District has negotiated with the Multi County Juvenile Attention Center in an effort to improve cash flow and reduce the float between services provided by the District, and the collection of tuition and fees by the District. Through these and continuing efforts the District expects to improve its cash position and fund balances moving forward.



Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 13, 2010

To the Board of Education
Canton Local School District
Canton, OH 44707

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Canton Local School District (the "District") as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 13, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weaknesses as finding 2010-03.

Canton Local School District
Independent Auditor's Report on Internal Control Over
Financial Reporting on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards
December 13, 2010
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as findings 2010-01 and 2010-02.

We also noted certain matters that we reported to management of the District in a separate letter dated December 13, 2010.

The District's responses to the findings identified in our audit are included within the body of the report (Schedule of Findings and Questioned Costs). We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Hea & Associates, Inc.



Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 13, 2010

To the Board of Education
Canton Local School District
Canton, OH 44707

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of Canton Local School District (the "District") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Hea & Associates, Inc.

CANTON LOCAL SCHOOL DISTRICT
STARK COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements
<u>U. S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program (C)	10.555	2010	\$ 52,024	\$ 52,024
Cash Assistance:				
School Breakfast Program (B)	10.553	2010	151,802	151,802
National School Lunch Program (B)	10.555	2010	458,997	458,997
<i>Cash Assistance Subtotal</i>			<u>610,799</u>	<u>610,799</u>
Total Child Nutrition Cluster			<u>662,823</u>	<u>662,823</u>
Total US Department of Agriculture Passed through Ohio Department of Education			<u>662,823</u>	<u>662,823</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed through Ohio Department of Education:</i>				
Title I, Part A, Grants to Local Educational Agencies (D)	84.010	2009	(36,161)	611
		2010	384,532	336,257
ARRA - Title I, Part A, Grants to Local Educational Agencies	84.389	2010	144,429	127,547
Total Title I, Part A			<u>492,800</u>	<u>464,415</u>
Title I, Part D, Grants to Local Educational Agencies	84.010	2009	75,952	74,216
		2010	123,770	73,337
ARRA - Title I, Part D, Grants to Local Educational Agencies	84.389	2010	18,605	10,605
Total Title I, Part D			<u>218,327</u>	<u>158,158</u>
Total Title I Cluster			<u>711,127</u>	<u>622,573</u>
Special Education Grants to States (Title VI-B)	84.027	2009	63,405	76,804
		2010	512,726	436,212
ARRA - Special Education Grants to States (Title VI-B)	84.391	2010	487,490	417,373
Total Special Education Cluster			<u>1,063,621</u>	<u>930,389</u>
Career and Technical Education - Basic Grants to States	84.048	2010	96,306	95,629
Educational Technology State Grants (Title II-D)	84.318	2009	100	-
		2010	3,025	3,362
			<u>3,125</u>	<u>3,362</u>
Improving Teacher Quality (Title II-A)	84.367	2010	104,975	91,617
Safe and Drug-Free Schools and Communities (Title IV-A)	84.186	2010	7,508	8,424
Javitis Gifted and Talented Students Education Grant	84.206	2010	-	3,000

**CANTON LOCAL SCHOOL DISTRICT
STARK COUNTY**
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	CFDA Number	Grant Number	Federal Receipts	Federal Disbursements
ARRA - State Fiscal Stabilization Fund	84.394	2010	\$ 514,670	\$ 416,658
Total U. S. Department of Education Passed through Ohio Department of Education			<u>2,501,332</u>	<u>2,171,652</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>				
<i>Passed through Ohio Department of Education:</i>				
Learn and Serve America	94.004	2009	8,656	4,798
		2010	10,048	12,353
Total Corporation for National and Community Service Passed through Ohio Department of Education			<u>18,704</u>	<u>17,151</u>
<u>U.S ENVIRONMENTAL PROTECTION AGENCY - OFFICE OF WATER</u>				
<i>Passed through Ohio Environmental Protection Agency:</i>				
ARRA - Capitalization Grants for Drinking Water	66.468	2010	27,500	27,500
Total U.S. Environmental Protection Agency - Office of Water Passed through Ohio Environmental Protection Agency			<u>27,500</u>	<u>27,500</u>
Total Federal Financial Assistance			<u>\$ 3,210,359</u>	<u>\$ 2,879,126</u>

See accompanying notes to schedule of expenditures of federal awards.

**Canton Local School District
Stark County, Ohio**

*Notes to the Schedule of Federal Expenditures – Cash Basis
For the Fiscal Year Ended June 30, 2010*

Note A – Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Canton Local School District (the District) and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations.” Therefore, same amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Child Nutrition Cluster

Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

Note C – Food Donation Program

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

Note D – Return of Receipt

The negative amount represents cash carried into the next grant year.

Note E – Matching Requirements

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

Note F - Transfers

The District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education’s (ODE) approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. During fiscal year 2010, the ODE authorized the following transfers:

<u>CFDA</u> <u>Number</u>	<u>Program Title</u>	<u>Program</u> <u>Year</u>	<u>Transfers</u> <u>Out</u>	<u>Transfers</u> <u>In</u>
84.010	Title I Grants to Local Educational Agencies	2009	\$ 44,130	
84.010	Title I Grants to Local Educational Agencies	2010		\$ 44,130
84.027	Title VI-B Special Education - Grants to States	2009	722	
84.027	Title VI-B Special Education - Grants to States	2010		722

**CANTON LOCAL SCHOOL DISTRICT
STARK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 , Section .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (ii)	Were there any other internal control deficiencies reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any internal control deficiencies reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list): Title I Cluster (ARRA) Special Education Cluster SFSF	CFDA # 84.010 & 84.389 (ARRA) 84.027 & 84.391 (ARRA) 84.394 (ARRA)
(d) (1) (viii)	Dollar Threshold: Type A/B	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

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

MATERIAL NON-COMPLIANCE

FINDING NUMBER	2010-001
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Criteria:

Ohio Rev. Code Section 5705.10 requires that money paid into a fund must be used only for the purposes for which such fund has been established. Negative fund cash balances indicate that money from one fund was used to cover the expenses of another fund. Ohio Rev. Code Section 3315.20 provides an exception for special revenue funds if the following conditions are met. The District must have a request for payment pending with the state sufficient to cover the amount of the deficit and there is a reasonable likelihood that the payment will be made; and the unspent unencumbered balance in the District's general fund is greater than the aggregate of deficit amounts in all of the District's special revenue funds.

**CANTON LOCAL SCHOOL DISTRICT
STARK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 2010**

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

MATERIAL NON-COMPLIANCE (Continued)

FINDING NUMBER	2010-001 (Continued)
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Condition Found:

The District had four funds with negative cash balances at year end that did not meet the exceptions listed above. The following table summarizes the negative cash balances at year end.

Fund	Deficit
Uniform School Supplies (009)	\$ 2,376
Other Grants Fund (019)	1,328,041
District Agency (022)	61,440
Learn & Serve Grant (599)	2,304

Effect:

The District has spent more than the available cash balance in the funds indicated above resulting in a deficit balance at year end.

Recommendations:

Fund activity should be monitored to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

Corrective Action:

Many of the negative fund balances at June 30, 2010 are due to the requirement of the various grants that have been awarded to the district. The terms of the grants require the expenditure of funds by a certain date while not always allowing sufficient time for the district to be reimbursed. In the case of the Multi-County Juvenile Attention Center Fund, the cost of all services are paid, then the participating districts are invoiced for their costs after the services have been provided and paid. The General Fund does not have adequate resources to advance funds to these grants.

FINDING NUMBER	2010-002
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Criteria:

Ohio Rev. Code Section 5705.41 (B) states no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated.

**CANTON LOCAL SCHOOL DISTRICT
STARK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 2010**

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

MATERIAL NON-COMPLIANCE (Continued)

FINDING NUMBER	2010-02 (Continued)
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Condition Found:

As of June 30, 2010, the District had expenditures exceeding appropriations in the following fund:

<u>Fund</u>	<u>Expenditures Exceeding Appropriations</u>
Other Grants Fund (019)	\$1,269,449

Effect:

The District spent monies prior to appropriating, contrary to budgetary requirements.

Recommendations:

The District should monitor expenditures and ensure appropriations are available prior to approving the purchase order.

Corrective Action:

This issue is related to the negative fund balances. Certain funds are required to be spent before the revenues are received, resulting in a negative fund balance. Appropriations cannot exceed the amount of revenue received so the appropriations are limited to the amount of revenue received. This causes the expenditures to exceed the appropriation level. The General Fund does not have adequate resources to advance to this fund to avoid having expenditures exceed appropriations.

MATERIAL WEAKNESS

FINDING NUMBER	2010-03
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Criteria:

In 2010, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued its Statement on Auditing Standards (SAS) No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, which supersedes SAS No. 112. This standard became effective for audits of financial statements for periods ending on or after December 15, 2009.

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 115 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the audit to report *in writing* to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 115 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

**CANTON LOCAL SCHOOL DISTRICT
STARK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 2010**

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

MATERIAL WEAKNESS (Continued)

FINDING NUMBER	2010-03 (Continued)
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Criteria (Continued):

The compilation and presentation of materially correct financial statements and the related footnotes is the responsibility of management of the District. Independent auditors are not part of the District's internal control structure and should not be relied upon by management to detect misstatements in the financial statements.

Condition Found:

As a result of our audit, we identified material misstatements in the District's financial statements, as well as other misstatements that were not necessarily material, but were more than inconsequential. Material amounts noted above have been subsequently reported in the audited financial statements.

Effect:

The District had four audit adjustments to the original financial statements that were presented for audit. These adjustments related to intergovernmental receivables and payables, accounts payable and debt transactions.

Recommendations:

The District is relying on a contracted service provider to compile the financial statements. We recommend the District consider modifying the existing control procedures over the financial reporting process to include an independent review of the financial statements and the related journal entries. The review should be conducted by District personnel that are knowledgeable of generally accepted accounting principles. Additionally, the Treasurer and the contracted service provider should review the adjustments and reclassifications identified during the current audit and ensure that similar errors are not reported on financial statements in subsequent years.

Corrective Action:

The District will implement new procedures to ensure the financial statements are compiled accurately in preparation for audit.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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NONE	
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CANTON LOCAL SCHOOL DISTRICT
STARK COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133, SECTION .315(b)
JUNE 30, 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2009-001	Ohio Revised Code Section 5705.10, several District funds had negative fund balances.	No	Re-issued as Finding 2010- 001
2009-002	Ohio Revised Code Section 5705.41(B), the District had several funds where expenditures exceeded appropriations.	No	Re-issued as Finding 2010-002
2009-003	SAS 112 material misstatements in the financial statements were identified.	No	Re-issued as Finding 2010-003 as SAS 115 Material Weakness
2009-004	Expenditures included in various cash basis federal drawdown requests included accrual adjustments for accrued wages.	Yes	Finding corrected no instances noted in fiscal year 2010.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 13, 2010

Canton Local School District
4526 Ridge Avenue SE
Canton, OH 44707

To the Board of Education:

Ohio Rev. Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Canton Local School District (the District) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an amended anti-harassment policy at its meeting in January 2010.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;

- (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States.
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

3. The policy excluded the following required element:

No required elements were excluded.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

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Dave Yost • Auditor of State

CANTON LOCAL SCHOOL DISTRICT

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 29, 2011