



Rea & associates *a brighter way*

# Canton City School District

## Stark County, Ohio

### *Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2013





# Dave Yost • Auditor of State

Board of Education  
Canton City School District  
1312 5th Street SW  
Canton, Ohio 44707

We have reviewed the *Independent Auditor's Report* of the Canton City School District, Stark County, prepared by Rea & Associates, Inc., for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

April 3, 2014

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**Canton City School District**  
**Stark County, Ohio**  
*Table of Contents*  
For the Fiscal Year Ended June 30, 2013

	<i>Page</i>
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position .....	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	17
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities .....	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	21
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund.....	23
Statement of Net Position – Proprietary Funds.....	24
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds .....	25
Statement of Cash Flows – Proprietary Funds.....	26
Statement of Fiduciary Net Position – Fiduciary Funds .....	27
Statement of Changes in Fiduciary Net Position – Fiduciary Fund.....	28
Notes to the Basic Financial Statements .....	29
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.....	68
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133.....	70
Schedule of Expenditures of Federal Awards .....	72
Notes to Schedule of Expenditures of Federal Awards .....	75
Schedule of Findings and Questioned Costs.....	76
Schedule of Prior Audit Findings.....	83
Independent Accountant’s Report on Applying Agreed-Upon Procedure.....	84

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January 31, 2014

To the Board of Education and Management  
Canton City School District  
Stark County, Ohio  
1312 5th Street SW  
Canton, OH 44707

## **Independent Auditor's Report**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Canton City School District, Stark County, Ohio, (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***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 Canton City School District, Stark County, Ohio, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As described in Note 3, the District restated the fund balance and net position balance to correct errors and omissions in the calculations of certain liabilities previously reported. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4–14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements.



The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2014 on our consideration of the District's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Rea & Associates, Inc.*

New Philadelphia, Ohio

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

The management's discussion and analysis of Canton City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2013 are as follows:

- In total, net position of the governmental activities decreased \$2.994 million from a restated balance of \$166.966 million at June 30, 2012 to \$163.972 million at June 30, 2013.
- General revenues accounted for \$100.025 million in revenue or 76.91% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$30.033 million or 23.09% of total revenues of \$130.058 million.
- The District had \$133.052 million in expenses related to governmental activities; only \$30.033 million of these expenses were offset by program specific charges for services or grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$100.025 million were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$103.972 million in revenues and other financing sources and \$106.042 million in expenditures and other financing uses. The general fund's fund balance decreased \$2.443 million from a restated balance of \$6.289 million to a balance of \$3.846 million.
- The debt service fund had \$21.376 million in revenues and other financing sources and \$19.182 million in expenditures and other financing uses. The debt service fund's fund balance increased \$2.194 million from \$14.478 million to \$16.672 million.
- The District issued refunding bonds in the amount of \$14.585 million during fiscal year 2013. These bonds refunded a portion of the series 2005 general obligation bonds. The refunding will reduce debt service payments over the next eight years by \$687,000. See Note 10 for more detail on the refunding bonds.

**Using the Basic Financial Statements (BFS)**

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

**Reporting the District as a Whole**

**Statement of net position 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 2013?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, 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 position and changes in that position. This change in net position 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 position 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 position and statement of activities can be found on pages 15-16 of this report.

**Reporting the District's Most Significant Funds**

**Fund Financial Statements**

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

**Governmental Funds**

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds are reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 17-23 of this report.

**Proprietary Funds**

The District maintains three proprietary funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service funds account for Bureau of Workers' Compensation (BWC) payments, warehouse activity and computer network activity. The basic proprietary fund financial statements can be found on pages 24-26 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

**Reporting the District's Fiduciary Responsibilities**

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 27 and 28. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**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 29-67 of this report.

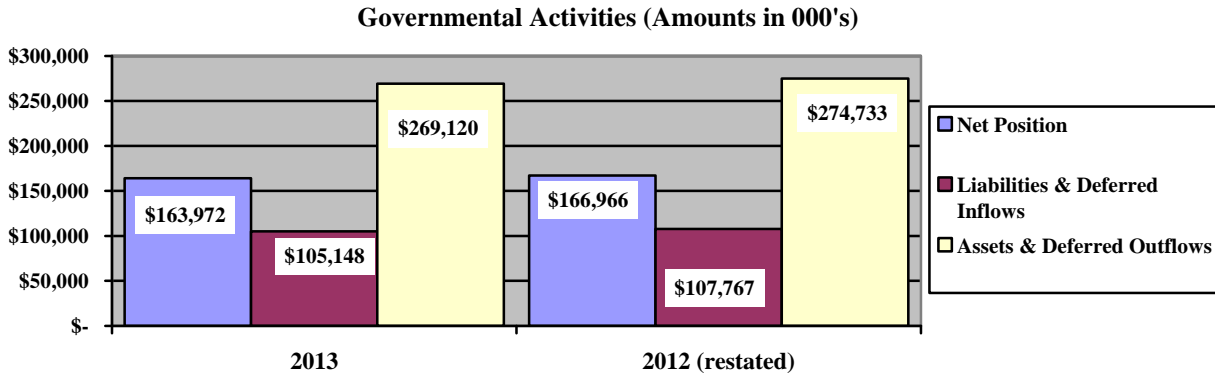
**The District as a Whole**

The statement of net position provides the perspective of the District as a whole. The table below provides a summary of the District's net position for 2013 and 2012. Certain amounts presented for 2012 have been reclassified to conform to 2013 presentation. The District restated net position as detailed in Note 3.C. to the basic financial statements.

	<b>Net Position (Amounts in 000's)</b>	
	<u>Governmental Activities</u>	
	<u>2013</u>	<u>Restated 2012</u>
<b><u>Assets</u></b>		
Current assets	\$ 73,462	\$ 77,568
Restricted assets	15,507	13,933
Capital assets, net	<u>178,066</u>	<u>181,817</u>
Total assets	<u>267,035</u>	<u>273,318</u>
<b><u>Deferred outflows</u></b>	<u>2,085</u>	<u>1,415</u>
<b><u>Liabilities</u></b>		
Current liabilities	15,694	15,827
Long-term liabilities	<u>62,365</u>	<u>62,704</u>
Total liabilities	<u>78,059</u>	<u>78,531</u>
<b><u>Deferred inflows</u></b>	<u>27,089</u>	<u>29,236</u>
<b><u>Net position</u></b>		
Net investment in capital assets	130,768	134,307
Restricted	28,875	29,287
Unrestricted	<u>4,329</u>	<u>3,372</u>
Total net position	<u>\$ 163,972</u>	<u>\$ 166,966</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)



Net position decreased \$2.994 million or 1.79%, mainly due to declining enrollment, which factors into the amount the District receives from the State Foundation program.

At year end, capital assets represented 66.68% of total assets. Capital assets include land, land improvements, buildings and building improvements, furniture, fixtures and equipment, vehicles and construction in progress. The District's net investment in capital assets at June 30, 2013, was \$130.768 million. 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 position, \$28.875 million, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$4.329 million may be used to meet the District's ongoing obligations to the students and creditors.

The table below shows the changes in net position for governmental activities for fiscal year 2013 compared to fiscal year 2012. 2012 net position has been restated as detailed in Note 3.C. to the basic financial statements.

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

	Governmental Activities	
	2013	2012
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 2,987	\$ 3,147
Operating grants and contributions	27,046	27,358
Capital grants and contributions	-	20
General revenues:		
Property taxes	30,023	26,036
Grants and entitlements	69,738	71,390
Investment earnings	251	415
Decrease in fair market value of investments	(223)	(286)
Other	236	780
Total revenues	<u>130,058</u>	<u>128,860</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

	Governmental Activities	
	2013	Restated 2012
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 42,349	\$ 43,674
Special	17,387	16,963
Vocational	2,317	2,348
Adult/continuing	1,558	1,529
Other	13,879	12,164
Support services:		
Pupil	6,810	7,085
Instructional staff	7,293	7,458
Board of education	30	35
Administration	9,283	8,882
Fiscal	1,804	1,801
Business	471	491
Operations and maintenance	11,317	10,858
Pupil transportation	4,140	3,530
Central	3,005	3,497
Operation of non-instructional services:		
Food service operations	4,380	4,113
Other non-instructional services	2,089	2,099
Extracurricular activities	2,691	2,670
Interest and fiscal charges	2,084	2,096
Bond issuance costs	165	-
<b>Total expenses</b>	<b>133,052</b>	<b>131,293</b>
Changes in net position	(2,994)	(2,433)
Net position at beginning of year (restated)	166,966	169,399
Net position at end of year	\$ 163,972	\$ 166,966

**Governmental Activities**

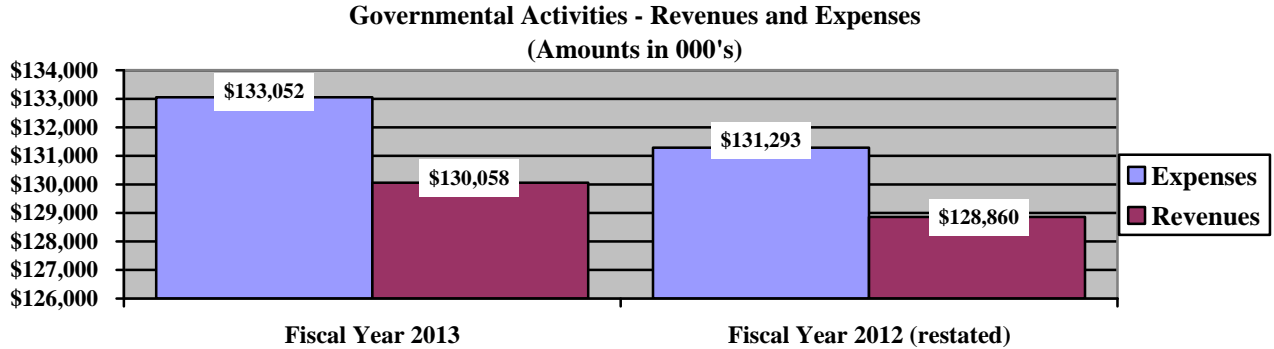
The net position of the District's governmental activities decreased \$2.994 million. Total governmental expenses of \$133.052 million were offset by program revenues of \$30.033 million and general revenues of \$100.025 million. Program revenues supported 22.57% of the total governmental expenses. The decrease in governmental activities net position is primarily due to decreased unrestricted grant revenues during the fiscal year and increasing expenses. The increase in expenses is due to increases in special and other instruction expenses. Tax revenue increased because fiscal year 2013 was the first full fiscal year of collections on the 7.9 mill property tax levy approved in November 2011.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These two revenue sources represent 76.71% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2013 and 2012.



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2013 and 2012. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**Governmental Activities (Amounts in 000's)**

	Total Cost of Services <u>2013</u>	Net Cost of Services <u>2013</u>	Restated Total Cost of Services <u>2012</u>	Restated Net Cost of Services <u>2012</u>
Program expenses:				
Instruction:				
Regular	\$ 42,349	\$ 40,889	\$ 43,674	\$ 42,521
Special	17,387	5,277	16,963	5,053
Vocational	2,317	1,391	2,348	1,378
Adult/continuing	1,558	(104)	1,529	(483)
Other	13,879	13,879	12,164	12,164
Support services:				
Pupil	6,810	6,189	7,085	5,944
Instructional staff	7,293	2,486	7,458	2,571
Board of Education	30	30	35	35
Administration	9,283	8,484	8,882	8,139
Fiscal	1,804	1,331	1,801	1,330
Business	471	471	491	491
Operations and maintenance	11,317	10,805	10,858	10,730
Pupil transportation	4,140	3,583	3,530	2,446
Central	3,005	2,676	3,497	3,459
Operation of non-instructional services:				
Food service operations	4,380	(464)	4,113	(732)
Other non-instructional services	2,089	1,585	2,099	1,478
Extracurricular activities	2,691	2,262	2,670	2,148
Interest and fiscal charges	2,084	2,084	2,096	2,096
Bond issuance costs	165	165	-	-
<b>Total expenses</b>	<u>\$ 133,052</u>	<u>\$ 103,019</u>	<u>\$ 131,293</u>	<u>\$ 100,768</u>

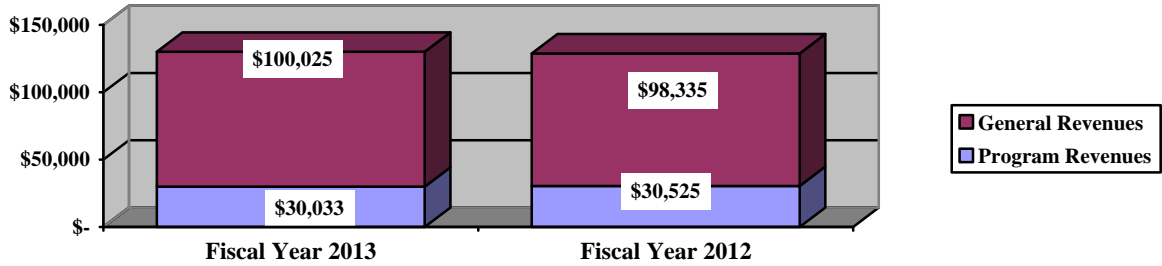
**CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

The dependence upon general revenues during fiscal year 2013 for governmental activities is apparent, as 79.15% of 2013 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 77.43% in 2013. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio, as a whole, are the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2013 and 2012.

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



**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$35.013 million, which is less than last year's restated total of \$37.710 million. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2013 and 2012 (amounts in 000's).

	Fund Balance <u>June 30, 2013</u>	Restated Fund Balance <u>June 30, 2012</u>	Increase (Decrease)
General	\$ 3,846	\$ 6,289	\$ (2,443)
Debt service	16,672	14,478	2,194
Other governmental	14,495	16,943	(2,448)
Total	<u>\$ 35,013</u>	<u>\$ 37,710</u>	<u>\$ (2,697)</u>

**General Fund**

The District's general fund balance decreased \$2.443 million. The table below assists in illustrating the financial activities and fund balance of the general fund (amounts in 000's).

	2013 <u>Amount</u>	2012 <u>Amount</u>	Increase (Decrease)	Percentage <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 24,181	\$ 21,159	\$ 3,022	14.28 %
Interest earnings	254	376	(122)	(32.45) %
Intergovernmental	76,931	78,490	(1,559)	(1.99) %
Other revenues	2,532	2,487	45	1.81 %
Total	<u>\$ 103,898</u>	<u>\$ 102,512</u>	<u>\$ 1,386</u>	1.35 %



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

	2013 <u>Amount</u>	Restated 2012 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<b><u>Expenditures</u></b>				
Instruction	\$ 67,645	\$ 63,632	\$ 4,013	6.31 %
Support services	34,576	33,828	748	2.21 %
Operation of non-instructional services	869	960	(91)	(9.48) %
Extracurricular activities	1,600	1,463	137	9.36 %
Facilities acquisition and construction	35	78	(43)	(55.13) %
Debt service	26	147	(121)	(82.31) %
Total	<u>\$ 104,751</u>	<u>\$ 100,108</u>	<u>\$ 4,643</u>	4.64 %

The increase in tax revenue is due primarily to a full year of collection on the 7.9 mill property tax levy passed in November 2011. Intergovernmental revenue decreased due to less revenue from the State Foundation Program and less revenue in tangible personal property tax reimbursements received from the state when compared to 2012.

Instruction expenditures increased 6.31%. This was primarily due to the end of the education jobs grant. This grant was reported in a nonmajor governmental fund, but since the grant concluded in fiscal year 2012, the general fund became responsible for payments of salaries and wages to those employees who were previously paid by the grant revenue. Also, the District saw an increase in payments for students attending community schools and tuition payments to other districts for Canton CSD students attending another school district under an open enrollment program. These two expenditures are reported in the other instruction expenditure category. Support service expenditures increased by 2.21%, due to increases in administration expenditures. Overall, general fund expenditures increased 4.64%

**Debt Service Fund**

The District's debt service fund balance increased by \$2.194 million. The table below assists in illustrating the financial activities and fund balance of the debt service fund (amounts in 000's).

	2013 <u>Amount</u>	2012 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 3,010	\$ 2,286	\$ 724	31.67 %
Interest earnings	-	17	(17)	(100.00) %
Decrease in fair market value of investments	(223)	(286)	63	22.03 %
Intergovernmental	<u>799</u>	<u>724</u>	<u>75</u>	10.36 %
Total	<u>\$ 3,586</u>	<u>\$ 2,741</u>	<u>\$ 845</u>	30.83 %
<b><u>Expenditures</u></b>				
Support services	\$ 90	\$ 58	\$ 32	55.17 %
Debt service:				
Principal retirement	863	1,350	(487)	(36.07) %
Interest and fiscal charges	1,815	1,662	153	9.21
Bond issuance costs	<u>165</u>	<u>-</u>	<u>165</u>	100.00 %
Total	<u>\$ 2,933</u>	<u>\$ 3,070</u>	<u>\$ (137)</u>	(4.46) %

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

The increase in fund balance resulted from greater tax revenue and an advance refunding undertaken by the District. The refunding transaction is discussed in detail in Note 10.

**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 2013, the District amended its general fund budget numerous times. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. For the general fund, final budgeted revenues and other financing sources were \$100.000 million. This amount is a decrease from the original budgeted revenues and other financing sources of \$103.813 million. The actual revenues and other financing sources were \$103.295 million, which was \$3.295 million greater than the final budget revenues. The primary variances between the final budgeted revenues and actual revenues were in the area of taxes and intergovernmental-state revenues. General fund original appropriations and other financing uses of \$111.049 million were decreased to \$106.049 million in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2013 totaled \$106.509 million which was \$460,000 greater than final budgeted appropriations.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2013, the District had \$178.066 million invested in land, land improvements, buildings and building improvements, furniture, fixtures and equipment, vehicles and construction in progress. The following table shows fiscal year 2013 balances compared to 2012:

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

	Governmental Activities	
	2013	2012
Land	\$ 17,413	\$ 17,413
Construction in progress	1,022	465
Land improvements	3,316	3,601
Buildings and building improvements	152,837	157,543
Furniture, fixtures and equipment	2,671	1,859
Vehicles	807	936
Total	\$ 178,066	\$ 181,817

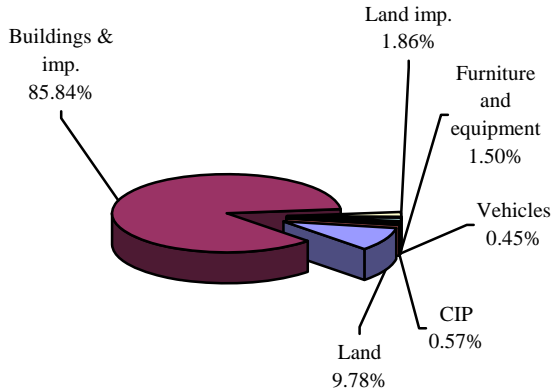
Total additions for 2013 were \$3.076 million. Depreciation expense for fiscal year 2013 was \$6.827 million. Overall, capital assets of the District decreased \$3.751 million.

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

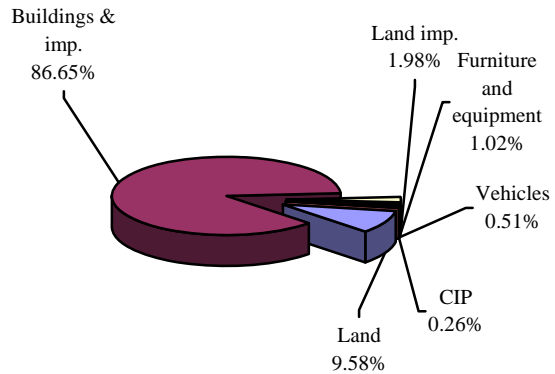
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

The following graphs show the breakdown of the governmental activities capital assets by category for 2013 and 2012.

**Capital Assets - 2013**



**Capital Assets - 2012**



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

**Debt Administration**

At June 30, 2013, the District had \$50.700 million in general obligation bonds, energy conservation bonds, and capital lease obligations outstanding. Of this total, \$16.136 million is due within one year and \$34.564 million is due in greater than one year.

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

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

	Balance <u>June 30, 2013</u>	Balance <u>June 30, 2012</u>
General obligation bonds	\$ 43,624	\$ 43,885
Notes payable	-	730
Energy conservation bonds	6,729	6,729
Capital lease obligation	<u>347</u>	<u>453</u>
Total	<u>\$ 50,700</u>	<u>\$ 51,797</u>

The District issued refunding bonds in the amount of \$14.585 million during fiscal year 2013. These bonds refunded a portion of the series 2005 general obligation bonds. The refunding will reduce debt service payments over the next eight years by \$687,000.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)

**Current Financial Related Activities**

Declining enrollment continues to be the District's number one problem. The main reasons for this appear to be students switching to community schools and people moving out of the District. Declining enrollment leads to decreases in state funding as enrollment corresponds to funding.

The number two problem is that the State of Ohio continues to fund schools well below historical levels. The state's financial problems have had a very negative effect on school districts throughout Ohio. Unless the unconstitutional state funding system is fixed, the District will be forced to make more budget cuts and layoffs.

Another problem the District is facing is the decrease in the assessed valuation of the real estate located within the District's boundaries. This decrease would lead to less property tax revenue generating ability for any future levies placed on the ballot.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Jeff Gruber, Treasurer of the Canton City School District at 1312 5<sup>th</sup> Street SW, Canton, Ohio 44707-4798.

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

STATEMENT OF NET POSITION  
JUNE 30, 2013  
(AMOUNTS IN 000's)

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and investments . . . . .	\$ 30,647
Receivables:	
Taxes . . . . .	37,833
Accounts . . . . .	89
Intergovernmental . . . . .	4,602
Accrued interest . . . . .	58
Prepayments . . . . .	61
Materials and supplies inventory. . . . .	172
Restricted assets:	
Equity in pooled cash and investments . . . . .	14,610
Cash with fiscal agent. . . . .	897
Capital assets:	
Nondepreciable capital assets. . . . .	18,435
Depreciable capital assets, net . . . . .	159,631
Total capital assets, net . . . . .	<u>178,066</u>
Total assets. . . . .	<u>267,035</u>
<b>Deferred outflows of resources:</b>	
Unamortized deferred charges on debt refunding	<u>2,085</u>
<b>Liabilities:</b>	
Accounts payable. . . . .	2,179
Accrued wages and benefits . . . . .	10,477
Pension obligation payable. . . . .	2,141
Intergovernmental payable . . . . .	324
Unearned revenue . . . . .	53
Accrued interest payable . . . . .	165
Claims payable . . . . .	355
Long-term liabilities:	
Due within one year. . . . .	17,684
Due in more than one year . . . . .	44,681
Total liabilities . . . . .	<u>78,059</u>
<b>Deferred inflows of resources:</b>	
Property taxes levied for the next fiscal year. . . . .	<u>27,089</u>
<b>Net position:</b>	
Net investment in capital assets. . . . .	130,768
Restricted for:	
Capital projects . . . . .	4,898
Debt service. . . . .	15,775
Classroom facilities maintenance . . . . .	2,192
Locally funded programs . . . . .	752
State funded programs. . . . .	36
Federally funded programs . . . . .	439
Food service operations. . . . .	3,958
Student activities. . . . .	273
Other purposes . . . . .	552
Unrestricted . . . . .	4,329
Total net position . . . . .	<u>\$ 163,972</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(AMOUNTS IN 000's)

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 42,349	\$ 290	\$ 1,170	\$ (40,889)
Special . . . . .	17,387	-	12,110	(5,277)
Vocational . . . . .	2,317	37	889	(1,391)
Adult/continuing . . . . .	1,558	783	879	104
Other . . . . .	13,879	-	-	(13,879)
Support services:				
Pupil . . . . .	6,810	165	456	(6,189)
Instructional staff . . . . .	7,293	-	4,807	(2,486)
Board of education . . . . .	30	-	-	(30)
Administration . . . . .	9,283	41	758	(8,484)
Fiscal . . . . .	1,804	242	231	(1,331)
Business . . . . .	471	-	-	(471)
Operations and maintenance . . . . .	11,317	507	5	(10,805)
Pupil transportation . . . . .	4,140	64	493	(3,583)
Central . . . . .	3,005	45	284	(2,676)
Operation of non-instructional services:				
Food service operations . . . . .	4,380	321	4,523	464
Other non-instructional services . . . . .	2,089	79	425	(1,585)
Extracurricular activities . . . . .	2,691	413	16	(2,262)
Interest and fiscal charges . . . . .	2,084	-	-	(2,084)
Bond issuance costs . . . . .	165	-	-	(165)
<b>Totals . . . . .</b>	<b>\$ 133,052</b>	<b>\$ 2,987</b>	<b>\$ 27,046</b>	<b>(103,019)</b>
<b>General revenues:</b>				
Property taxes levied for:				
General purposes . . . . .				25,364
Debt service . . . . .				3,174
Capital outlay . . . . .				1,060
Facilities maintenance . . . . .				425
Grants and entitlements not restricted to specific programs . . . . .				69,738
Investment earnings . . . . .				251
Decrease in fair market value of investments . . . . .				(223)
Miscellaneous . . . . .				236
Total general revenues . . . . .				100,025
Change in net position . . . . .				(2,994)
<b>Net position at beginning of year (restated) . . . . .</b>				166,966
<b>Net position at end of year . . . . .</b>				<b>\$ 163,972</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013  
(AMOUNTS IN 000's)

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and investments. . . . .	\$ 14,353	\$ 1,045	\$ 14,826	\$ 30,224
Receivables:				
Taxes . . . . .	31,707	4,400	1,726	37,833
Accounts . . . . .	66	-	23	89
Intergovernmental . . . . .	732	-	3,637	4,369
Accrued interest . . . . .	58	-	-	58
Due from other funds. . . . .	875	-	-	875
Prepayments . . . . .	60	-	1	61
Materials and supplies inventory . . . . .	116	-	56	172
Restricted assets:				
Equity in pooled cash and investments . . . . .	-	14,610	-	14,610
Cash with fiscal agent . . . . .	-	897	-	897
Total assets . . . . .	<u>\$ 47,967</u>	<u>\$ 20,952</u>	<u>\$ 20,269</u>	<u>\$ 89,188</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 1,245	\$ -	\$ 908	\$ 2,153
Accrued wages and benefits . . . . .	9,066	-	1,409	10,475
Compensated absences payable . . . . .	581	-	125	706
Pension obligation payable . . . . .	1,873	-	267	2,140
Intergovernmental payable. . . . .	172	-	27	199
Due to other funds. . . . .	-	-	875	875
Unearned revenue . . . . .	12	-	41	53
Total liabilities . . . . .	<u>12,949</u>	<u>-</u>	<u>3,652</u>	<u>16,601</u>
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year. . . . .	22,806	3,484	799	27,089
Delinquent property tax revenue not available. . . . .	7,741	796	799	9,336
Accrued interest not available. . . . .	28	-	-	28
Other nonexchange transactions not available. . . . .	-	-	524	524
Miscellaneous revenue not available . . . . .	597	-	-	597
Total deferred inflows of resources . . . . .	<u>31,172</u>	<u>4,280</u>	<u>2,122</u>	<u>37,574</u>
<b>Fund balances:</b>				
Nonspendable . . . . .	176	-	57	233
Restricted. . . . .	-	16,672	14,830	31,502
Assigned. . . . .	3,670	-	-	3,670
Unassigned (deficit). . . . .	-	-	(392)	(392)
Total fund balances. . . . .	<u>3,846</u>	<u>16,672</u>	<u>14,495</u>	<u>35,013</u>
Total liabilities, deferred inflows and fund balances. . . . .	<u>\$ 47,967</u>	<u>\$ 20,952</u>	<u>\$ 20,269</u>	<u>\$ 89,188</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2013  
(AMOUNTS IN 000's)

<b>Total governmental fund balances</b>		\$	35,013
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			178,066
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	9,336	
Accrued interest receivable		28	
Intergovernmental nonexchange revenue receivable		524	
Miscellaneous intergovernmental receivable		597	
Total		597	10,485
Unamortized deferred charges on refundings are not recognized in the funds.			2,085
Unamortized premiums on bond issuances are not recognized in the funds.			(2,488)
Internal service funds are used by management to charge the costs of workers' compensation and warehouse services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities on the statement of net position.			147
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(165)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(43,624)	
Energy conservation bonds		(6,729)	
Compensated absences		(4,516)	
Capital lease obligations		(347)	
Health care reimbursement arrangement payable		(3,955)	
Total		(59,171)	(59,171)
<b>Net position of governmental activities</b>		\$	163,972

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(AMOUNTS IN 000's)

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 24,181	\$ 3,010	\$ 1,026	\$ 28,217
Tuition . . . . .	1,016	-	16	1,032
Earnings on investments . . . . .	254	-	44	298
Decrease in fair market value of investments . . . . .	-	(223)	-	(223)
Charges for services . . . . .	-	-	321	321
Extracurricular . . . . .	212	-	466	678
Classroom materials and fees . . . . .	70	-	-	70
Other local revenues . . . . .	1,234	-	112	1,346
Intergovernmental - Intermediate . . . . .	-	-	77	77
Intergovernmental - State . . . . .	76,421	461	1,411	78,293
Intergovernmental - Federal . . . . .	510	338	16,699	17,547
Total revenue . . . . .	<u>103,898</u>	<u>3,586</u>	<u>20,172</u>	<u>127,656</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	38,989	-	1,212	40,201
Special . . . . .	11,366	-	5,682	17,048
Vocational . . . . .	2,452	-	38	2,490
Adult/continuing . . . . .	958	-	598	1,556
Other . . . . .	13,880	-	-	13,880
Support services:				
Pupil . . . . .	5,978	-	610	6,588
Instructional staff . . . . .	1,958	-	4,952	6,910
Board of education . . . . .	30	-	-	30
Administration . . . . .	8,042	-	728	8,770
Fiscal . . . . .	1,461	90	242	1,793
Business . . . . .	468	-	5	473
Operations and maintenance . . . . .	9,823	-	1,736	11,559
Pupil transportation . . . . .	3,260	-	421	3,681
Central . . . . .	3,556	-	1	3,557
Operation of non-instructional services:				
Food service operations . . . . .	-	-	4,355	4,355
Other non-instructional services . . . . .	869	-	423	1,292
Extracurricular activities . . . . .	1,600	-	759	2,359
Facilities acquisition and construction . . . . .	35	-	689	724
Debt service:				
Principal retirement . . . . .	24	863	82	969
Interest and fiscal charges . . . . .	2	1,815	20	1,837
Bond issuance costs . . . . .	-	165	-	165
Total expenditures . . . . .	<u>104,751</u>	<u>2,933</u>	<u>22,553</u>	<u>130,237</u>
Excess/(deficiency) of revenues over/ (under) expenditures . . . . .	<u>(853)</u>	<u>653</u>	<u>(2,381)</u>	<u>(2,581)</u>

--continued

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(AMOUNTS IN 000's)

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	\$ -	\$ 1,376	\$ 660	\$ 2,036
Transfers (out). . . . .	(1,291)	-	(745)	(2,036)
Sale of refunding bonds. . . . .	-	14,585	-	14,585
Premium on bonds sold . . . . .	-	1,829	-	1,829
Payment to refunded bond escrow agent. . .	-	(16,249)	-	(16,249)
Sale of capital assets. . . . .	74	-	7	81
Total other financing sources (uses) . . . . .	<u>(1,217)</u>	<u>1,541</u>	<u>(78)</u>	<u>246</u>
Net change in fund balances . . . . .	(2,070)	2,194	(2,459)	(2,335)
<b>Fund balances at</b>				
<b>beginning of year (restated) . . . . .</b>	6,289	14,478	16,943	37,710
<b>Increase (decrease) in</b>				
<b>reserve for inventory . . . . .</b>	<u>(373)</u>	<u>-</u>	<u>11</u>	<u>(362)</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 3,846</u>	<u>\$ 16,672</u>	<u>\$ 14,495</u>	<u>\$ 35,013</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(AMOUNTS IN 000's)

**Net change in fund balances - total governmental funds** \$ (2,335)

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

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

Capital asset additions	\$ 3,076	
Current year depreciation	(6,827)	
<b>Total</b>	<b>(3,751)</b>	<b>(3,751)</b>

Governmental funds report expenditures for inventory when purchased, however, in the statement of activities, they are reported as expenses when consumed. (362)

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

Delinquent property taxes	1,807	
Interest	(15)	
Intergovernmental	490	
<b>Total</b>	<b>2,282</b>	<b>2,282</b>

Repayment of long-term principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.

The following principal payments were made in the fiscal year:

Bonds and notes	863	
Capital lease obligations	106	
<b>Total</b>	<b>969</b>	<b>969</b>

The sale of bonds is reported as an other financing source in the governmental funds, however it increases long-term liabilities on the statement of net position. (14,585)

Payment to refunded bond escrow agent for the retirement of bonds is an other financing use in the governmental funds but the payment reduces long-term liabilities on the statement of net position. Deferred charges related to bond refundings are amortized over the life of the issuance in the statement of activities. The following refunding transactions occurred during the year:

Bonds refunded	14,600	
Deferred charges on refundings	1,649	
<b>Total</b>	<b>16,249</b>	<b>16,249</b>

-- (continued)

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(AMOUNTS IN 000's)

Premiums on bonds are amortized over the life of the issuance in the statement of activities.	\$	(1,829)
In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in increased interest being reported on the statement of activities:		
Increase in accrued interest payable	\$	(34)
Accreted interest on "capital appreciation" bonds		(419)
Payment of accreted interest on capital appreciation bonds		532
Elimination of bond and note issuance costs		(345)
Amortization on bond and note premiums		61
Amortization of deferred charge on refunding		(42)
Total		(247)
Some expenses reported in the statement of activities, such as the long-term portion of compensated absences and the health reimbursement arrangement payable do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		342
The internal service funds used by management to charge the costs of workers' compensation, a computer network and warehouse services to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The change in net position of the internal service funds is allocated among the governmental activities.		
		273
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b>(2,994)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(AMOUNTS IN 000's)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 24,849	\$ 23,936	\$ 24,730	\$ 794
Tuition . . . . .	476	458	474	16
Earnings on investments . . . . .	318	307	293	(14)
Other local revenues . . . . .	1,023	985	1,018	33
Intergovernmental - State . . . . .	76,430	73,623	76,066	2,443
Intergovernmental - Federal . . . . .	513	494	511	17
<b>Total revenue . . . . .</b>	<b>103,609</b>	<b>99,803</b>	<b>103,092</b>	<b>3,289</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	41,213	39,357	39,528	(171)
Special . . . . .	11,582	11,061	11,109	(48)
Vocational . . . . .	2,911	2,780	2,792	(12)
Other . . . . .	14,566	13,910	13,970	(60)
Support services:				
Pupil . . . . .	6,309	6,025	6,051	(26)
Instructional staff . . . . .	1,903	1,818	1,826	(8)
Board of education . . . . .	33	32	32	-
Administration . . . . .	8,161	7,794	7,828	(34)
Fiscal . . . . .	1,572	1,501	1,508	(7)
Business . . . . .	523	499	501	(2)
Operations and maintenance . . . . .	10,415	9,946	9,989	(43)
Pupil transportation . . . . .	3,451	3,295	3,309	(14)
Central . . . . .	4,100	3,916	3,933	(17)
Operation of non-instructional services . . . . .	879	839	843	(4)
Extracurricular activities . . . . .	1,674	1,598	1,605	(7)
Facilities acquisition and construction . . . . .	36	35	35	-
<b>Total expenditures . . . . .</b>	<b>109,328</b>	<b>104,406</b>	<b>104,859</b>	<b>(453)</b>
Excess of expenditures over revenues . . . . .	(5,719)	(4,603)	(1,767)	2,836
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	130	125	129	4
Refund of prior year receipt . . . . .	(218)	(208)	(209)	(1)
Transfers (out) . . . . .	(1,503)	(1,435)	(1,441)	(6)
Sale of capital assets . . . . .	74	72	74	2
<b>Total other financing sources (uses) . . . . .</b>	<b>(1,517)</b>	<b>(1,446)</b>	<b>(1,447)</b>	<b>(1)</b>
Net change in fund balance . . . . .	(7,236)	(6,049)	(3,214)	2,835
<b>Fund balance at beginning of year . . . . .</b>	<b>11,422</b>	<b>11,422</b>	<b>11,422</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>3,664</b>	<b>3,664</b>	<b>3,664</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b>\$ 7,850</b>	<b>\$ 9,037</b>	<b>\$ 11,872</b>	<b>\$ 2,835</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2013  
(AMOUNTS IN 000's)

		<b>Governmental Activities - Internal Service Funds</b>
		<hr/>
<b>Assets:</b>		
Current assets:		
Equity in pooled cash and investments. . . . .	\$	423
Receivables:		
Intergovernmental . . . . .		<hr/> 233
Total assets . . . . .		<hr/> 656
<b>Liabilities:</b>		
Accounts payable. . . . .		26
Accrued wages and benefits . . . . .		2
Pension obligation payable. . . . .		1
Intergovernmental payable . . . . .		125
Claims payable . . . . .		<hr/> 355
Total liabilities . . . . .		<hr/> 509
<b>Net position:</b>		
Unrestricted. . . . .		<hr/> 147
Total net position . . . . .	\$	<hr/> <hr/> 147

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



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

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(AMOUNTS IN 000's)

		<b>Governmental Activities - Internal Service Funds</b>
<b>Operating revenues:</b>		
Charges for services and fees. . . . .	\$	316
Other . . . . .		384
		<hr/>
Total operating revenues . . . . .		700
		<hr/>
<b>Operating expenses:</b>		
Personal services. . . . .		223
Purchased services. . . . .		61
Materials and supplies . . . . .		134
Claims . . . . .		50
		<hr/>
Total operating expenses. . . . .		468
		<hr/>
Operating income . . . . .		232
		<hr/>
<b>Nonoperating revenues:</b>		
Interest revenue . . . . .		2
Grants and subsidies. . . . .		39
		<hr/>
Total nonoperating revenues . . . . .		41
		<hr/>
Change in net position. . . . .		273
		<hr/>
<b>Net position (deficit) at beginning of year . .</b>		(126)
		<hr/>
<b>Net position at end of year. . . . .</b>	<b>\$</b>	<b>147</b>
		<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(AMOUNTS IN 000's)

		<b>Governmental Activities - Internal Service Funds</b>
<b>Cash flows from operating activities:</b>		
Cash received from charges for services and fees . . .	\$	316
Cash received from other operations . . . . .		152
Cash payments for personal services. . . . .		(428)
Cash payments for purchased services . . . . .		(95)
Cash payments for materials and supplies . . . . .		(134)
		<hr/>
Net cash used in operating activities . . . . .		(189)
		<hr/>
<b>Cash flows from noncapital financing activities:</b>		
Cash received from grants and subsidies. . . . .		38
		<hr/>
<b>Cash flows from investing activities:</b>		
Interest received . . . . .		2
		<hr/>
Net decrease in cash and cash equivalents . . . . .		(149)
		<hr/>
<b>Cash and cash equivalents at beginning of year . . .</b>		<b>572</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b>\$</b>	<b>423</b>
		<hr/> <hr/>
<b>Reconciliation of operating income to net cash used in operating activities:</b>		
Operating income . . . . .	\$	232
Changes in assets and liabilities:		
Increase in intergovernmental receivable . . . . .		(233)
Decrease in accounts payable . . . . .		(34)
Increase in accrued wages and benefits . . . . .		1
Decrease in intergovernmental payable . . . . .		(205)
Increase in claims payable. . . . .		50
		<hr/>
Net cash used in operating activities . . . . .	\$	(189)
		<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2013  
(AMOUNTS IN 000's)

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and investments . . . . .	\$ 111	\$ 253
Receivables:		
Accounts. . . . .	1	-
	112	-
Total assets . . . . .	112	\$ 253
<b>Liabilities:</b>		
Accounts payable . . . . .	-	\$ 5
Due to students . . . . .	-	248
	-	253
Total liabilities . . . . .	-	\$ 253
<b>Net position:</b>		
Held in trust for scholarships. . . . .	112	
Total net position. . . . .	\$ 112	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(AMOUNTS IN 000's)

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 4
Gifts and contributions. . . . .	33
	37
Total additions. . . . .	37
<b>Deductions:</b>	
Scholarships awarded . . . . .	23
	14
Change in net position . . . . .	14
<b>Net position at beginning of year. . . . .</b>	<b>98</b>
<b>Net position at end of year . . . . .</b>	<b>\$ 112</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

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

The District employs 572 non-certified and 856 certified employees to provide services to approximately 9,685 students and community groups.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. 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, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. 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 government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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

*JOINTLY GOVERNED ORGANIZATIONS*

Canton Joint Recreation District

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

*PUBLIC ENTITY RISK POOL*

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

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

The following are the District's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The District has no enterprise funds. The following is a description of the District's internal service funds.

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

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation**

*Government-wide Financial Statements* - The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

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



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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

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

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

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

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

**D. Basis of Accounting**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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

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

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

*Deferred Inflows of Resources and Deferred Outflows of Resources* - A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of June 30, 2013, but which were levied to finance fiscal year 2014 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows. Grants not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at June 30, 2013, are recorded as deferred inflows on the governmental fund financial statements.

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

*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 statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue. Unused donated commodities are reported as intergovernmental revenue.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

**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 alternate 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 by the Board of Education at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

On October 25, 2005, the Stark County Budget Commission voted to waive the requirement that school districts adopt a tax budget as required by Section 5705.28 of the Ohio Revised Code, by January 15<sup>th</sup> and the filing by January 20<sup>th</sup>. The Budget Commission now requires an alternate tax budget be submitted by January 20<sup>th</sup>, 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 July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate of estimated resources in effect when the final appropriations were passed by the Board of Education.

Appropriations:

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

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 budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board of Education during the fiscal 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 re-appropriated.

**F. Cash and Investments**

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

During fiscal year 2013, investments were limited to U.S. Treasury notes, federal agency securities, repurchase agreements, U.S. money market mutual funds and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

The District had invested funds in STAR Ohio during fiscal year 2013. 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, 2013.

Under existing Ohio statute, interest earnings are allotted to the general fund unless the Board of Education has, by resolution, specified funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2013 amounted to \$254,000 which includes \$90,000 assigned from other District funds.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

**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 expended/expensed when used. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

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

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

**H. Capital Assets**

General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, 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.

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

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

**I. Interfund Balances**

Short-term interfund loans used to cover negative cash balances in funds are classified as "due to/from other funds". These amounts are eliminated in the governmental activities column of the statement of net position.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

**J. Compensated Absences**

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

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2013 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

For governmental fund financial statements, 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.

**K. Accrued Liabilities and Long-Term Obligations**

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

**L. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

*Restricted* - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

*Committed* - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes, but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

*Unassigned* - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

**M. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for a special trust fund.

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

**N. Prepayments**

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

**O. Parochial Schools**

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

**P. Estimates**

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

**Q. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. See Note 10.E. for further detail on restricted assets related to QZAB sinking fund deposits maintained by the District. See Note 10.F. for further detail on restricted assets related to the energy conservation bond sinking fund deposits with fiscal agent.



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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

**R. Operating Revenues and Expenses**

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

**S. Interfund Activity**

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.

**T. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2013, the District did not have extraordinary or special items.

**U. Unamortized Bond Premium and Discount/Accounting Gain or Loss**

Bond premiums are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred outflow of resources on the statement of net position.

On the governmental fund financial statements, bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 10.H.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2013, the District has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the District.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the District.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the District.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the District.

**B. Deficit Fund Balances**

Fund balances at June 30, 2013 included the following individual fund deficits (amounts in 000's):

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Public school preschool	\$ 3
Alternative school grant	40
Adult basic education	16
Race to the top	83
Title VI-B	69
Vocational education	139
Title III	3
Handicapped preschool	11
Miscellaneous federal grants	28

The general fund is liable for any deficits in the nonmajor governmental funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities. The deficits in the nonmajor governmental funds will be eliminated by future intergovernmental revenues not recognized under GAAP at June 30.

**C. Restatement of Fund Balances and Net Position**

The District has restated the fund balance of the general fund and net position as of July 1, 2012. This restatement is required to correct errors and omissions in the calculations of certain liabilities previously reported. The effect of the restatement is as follows (amounts in 000's):

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental</u>	<u>Total</u>	<u>Governmental Activities</u>
Fund balance/net position as of June 30, 2012	\$ 5,094	\$ 14,478	\$ 16,943	\$ 36,515	\$ 168,041
Adjustment for accrued wages and benefits	(1,075)	-	-	(1,075)	(1,075)
Adjustment for HRA payable	<u>2,270</u>	<u>-</u>	<u>-</u>	<u>2,270</u>	<u>-</u>
Restated fund balance/ net position at July 1, 2012	<u>\$ 6,289</u>	<u>\$ 14,478</u>	<u>\$ 16,943</u>	<u>\$ 37,710</u>	<u>\$ 166,966</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**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;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

**A. Cash with Fiscal Agent**

At fiscal year end, \$897,000 was on deposit with an escrow agent for required sinking fund deposits relating to the District's energy conservation bonds. These funds are not included in "deposits with financial institutions" below.

**B. Deposits with Financial Institutions**

At June 30, 2013, the carrying amount of all District deposits was \$3.962 million exclusive of the \$8.440 million repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, \$3.528 million of the District's bank balance of \$4.061 million was exposed to custodial risk as discussed below, while \$533,000 was covered by the FDIC.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Investments**

As of June 30, 2013, the District had the following investments and maturities (amounts in 000's):

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
FHLB	\$ 2,497	\$ -	\$ -	\$ -	\$ 1,002	\$ 1,495
FFCB	5,891	-	650	1,000	1,752	2,489
FHLMC	2,744	-	1,001	-	-	1,743
FNMA	3,051	501	-	-	2,052	498
U.S. Treasury Notes	13,360	12,357	-	1,003	-	-
STAR Ohio	5,602	5,602	-	-	-	-
U.S. government money market	74	74	-	-	-	-
Repurchase agreement	8,440	8,440	-	-	-	-
	<u>\$ 41,659</u>	<u>\$ 26,974</u>	<u>\$ 1,651</u>	<u>\$ 2,003</u>	<u>\$ 4,806</u>	<u>\$ 6,225</u>

The weighted average maturity of investments is 0.75 years.

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less. The District's investment policy limits investment in commercial paper to maturities of 180 days or less from the date of purchase. The District did not have investments in commercial paper at June 30, 2013.

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

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. treasury notes and federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. Of the District's \$8.440 million investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Concentration of Credit Risk:* The District's investment policy places limits on the amount that may be invested in any one issuer. Investments in federal agency securities may not exceed 70% of the District's portfolio at time of purchase. In addition, no more than 25% of investments in federal agency securities may be in callable agency securities. Investments in commercial paper may not exceed 25% of the District's portfolio at time of purchase. The following table includes the percentage of each investment type held by the District at June 30, 2013 (amounts in 000's):

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 2,497	5.99
FFCB	5,891	14.14
FHLMC	2,744	6.59
FNMA	3,051	7.32
U.S. Treasury Notes	13,360	32.07
STAR Ohio	5,602	13.45
U.S. government money market	74	0.18
Repurchase agreement	<u>8,440</u>	<u>20.26</u>
	<u>\$ 41,659</u>	<u>100.00</u>

**D. Reconciliation of Cash and Investments to the Statement of Net Position**

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 position as of June 30, 2013 (amounts in 000's):

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,962
Cash with fiscal agent	897
Investments	<u>41,659</u>
Total	<u>\$ 46,518</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 46,154
Private-purpose trust fund	111
Agency funds	<u>253</u>
Total	<u>\$ 46,518</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Interfund balances consisted of the following due to/from other funds at June 30, 2013, as reported on the fund statements (amounts in 000's):

	<u>Amount</u>
<u>Due to the general fund from:</u>	
Nonmajor governmental funds	\$ 875

The primary purpose of the interfund loans due to the general fund is to cover a negative cash balance in the nonmajor governmental funds. These negative cash balances are allowable under Ohio Revised Code Section 3315.20. The interfund balances will be repaid once the anticipated revenues are received.

Amounts due to/from other funds between governmental funds are eliminated on the government-wide financial statements.

- B. Interfund transfers for the year ended June 30, 2013 consisted of the following, as reported on the fund statements (amounts in 000's):

	<u>Amount</u>
<u>Transfers from general fund to:</u>	
Debt service	\$ 631
Nonmajor governmental funds	660
<u>Transfers from nonmajor governmental funds to</u>	
Debt service	745
Total	\$ 2,036

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

During fiscal year 2013, the District made \$631,000 in transfers from the general fund to the debt service fund related to long-term note principal and interest expenditures.

During fiscal year 2013, the District made \$745,000 in transfers from the permanent improvement fund, a nonmajor governmental fund, to the debt service fund related to long-term note principal and interest expenditures.

Interfund transfers between governmental funds are eliminated for reporting on the statement of activities.

**NOTE 6 - PROPERTY TAXES**

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



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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 6 - PROPERTY TAXES - (Continued)**

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2013 represent the collection of calendar year 2012 taxes. Real property taxes received in calendar year 2013 were levied after April 1, 2012, on the assessed values as of January 1, 2012, 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 2013 represent the collection of calendar year 2012 taxes. Public utility real and personal property taxes received in calendar year 2013 became a lien on December 31, 2011, were levied after April 1, 2012, 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.

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, 2013, are available to finance fiscal year 2013 operations. The amount available as an advance at June 30, 2013 was \$1.160 million in the general fund, \$120,000 in the debt service fund, and \$129,000 in the permanent improvement fund, a nonmajor governmental fund. This amount is recorded as revenue. The amount available for advance at June 30, 2012 was \$1.709 million in the general fund, \$171,000 in the debt service fund, and \$92,000 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 delinquent tangible personal property taxes which are measurable as of June 30, 2013 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

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 reported as a deferred inflow.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 6 - PROPERTY TAXES - (Continued)**

The assessed values upon which the fiscal year 2013 taxes were collected are (amounts in 000's):

	2012 Second Half Collections		2013 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 651,928	93.57	\$ 506,273	91.61
Public utility personal	<u>44,810</u>	<u>6.43</u>	<u>46,409</u>	<u>8.39</u>
Total	<u>\$ 696,738</u>	<u>100.00</u>	<u>\$ 552,682</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation				
Operations	\$ 68.00		\$ 68.00	
Debt service	4.10		4.90	
Permanent improvement	2.50		2.50	
Classroom maintenance	0.60		2.50	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2013 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. Principal items of receivables reported on the statement of net position follows (amounts in 000's):

**Governmental activities:**

Taxes	\$ 37,833
Accounts	89
Intergovernmental	4,602
Accrued interest	<u>58</u>
Total governmental activities	<u>\$ 42,582</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows (amounts in 000's):

	Balance <u>June 30, 2012</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2013</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 17,413	\$ -	\$ -	\$ 17,413
Construction in progress	465	557	-	1,022
Total capital assets, not being depreciated	<u>17,878</u>	<u>557</u>	<u>-</u>	<u>18,435</u>
Capital assets, being depreciated:				
Land improvements	7,147	-	-	7,147
Building/improvements	216,231	320	(6)	216,545
Furniture/equipment	10,941	2,117	(55)	13,003
Vehicles	5,084	82	(262)	4,904
Total capital assets, being depreciated	<u>239,403</u>	<u>2,519</u>	<u>(323)</u>	<u>241,599</u>
Less: accumulated depreciation				
Land improvements	(3,546)	(285)	-	(3,831)
Building/improvements	(58,688)	(5,026)	6	(63,708)
Furniture/equipment	(9,082)	(1,305)	55	(10,332)
Vehicles	(4,148)	(211)	262	(4,097)
Total accumulated depreciation	<u>(75,464)</u>	<u>(6,827)</u>	<u>323</u>	<u>(81,968)</u>
Governmental activities capital assets, net	<u>\$ 181,817</u>	<u>\$ (3,751)</u>	<u>\$ -</u>	<u>\$ 178,066</u>

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

Instruction:	
Regular	\$ 2,775
Special	674
Support services:	
Pupil	236
Instructional staff	399
Administration	562
Operations and maintenance of plant	716
Pupil transportation	175
Operation of non-instructional services	826
Food service operations	33
Extracurricular activities	431
Total depreciation expense	<u>\$ 6,827</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

In prior fiscal years, the District entered into capital lease agreements for copier equipment and for the acquisition of a stadium scoreboard and various stadium improvements. These leases meet the criteria of a capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Governmental activities capital assets consisting of copier equipment, stadium scoreboard and stadium improvements have been capitalized in the amount of \$1.701 million. This amount represents the present value of the future minimum lease payments at the time of acquisition. A corresponding liability is recorded on the statement of net position. Principal and interest payments in the 2013 fiscal year totaled \$106,000 and \$22,000, respectively. These amounts are reported as debt service payments of the general fund, the permanent improvement fund (a nonmajor governmental fund) and the Wells/Fawcett Stadium Trust Fund (a nonmajor governmental fund).

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2013 follows (amounts in 000's):

<u>Year Ending June 30</u>	<u>Amount</u>
2014	\$ 53
2015	53
2016	52
2017	52
2018	53
2019 - 2021	<u>158</u>
Total minimum lease payment	421
Less: amount representing interest	<u>(74)</u>
Present value of minimum lease payments	<u>\$ 347</u>

**NOTE 10 - LONG-TERM OBLIGATIONS**

**A. Series 2000 General Obligation Bonds**

During fiscal year 2001, the District issued Series 2000 general obligation bonds to provide long-term financing of the construction and renovation of various school buildings in accordance with the terms of a Facilities grant from the Ohio Schools Facilities Commission (OSFC). The total project (hereafter "Construction Project") encompasses the construction of nine new elementary schools, one new middle school, and a high school campus and the remodeling of five elementary schools, three middle schools and two high schools. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 3.5 mils bonded debt tax levy.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the OSFC.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

**B. Series 2005 General Obligation Refunding Bonds**

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

The refunding issue is comprised of both current interest bonds, par value \$27.855 million, and capital appreciation bonds, par value \$470,000. The average interest rate on the current interest bonds is 4.10%. The remaining capital appreciation bond matures on December 1, 2013 (approximate initial offering yield to maturity 4.15%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the remaining capital appreciation bond is \$2.07 million. Total accreted interest of \$1.527 million has been included on the statement of net position at June 30, 2013.

On May 8, 2013, the District issued \$14.585 million (series 2013 advance refunding general obligation bonds) to advance refund the callable portion of the bonds. The refunded portions of the series 2005 bonds included portions of the serial bonds and the entire amount of the term bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position.

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

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

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

The following is a schedule of activity for fiscal year 2013 on the Series 2005 general obligation refunding bonds (amounts in 000's):

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>
Current interest bonds	\$ 25,675	\$ -	\$ (14,600)	\$ 11,075
Capital appreciation bonds	470	-	(133)	337
Accreted interest on capital appreciation bonds	<u>1,640</u>	<u>419</u>	<u>(532)</u>	<u>1,527</u>
Total G.O. Bonds	<u>\$ 27,785</u>	<u>\$ 419</u>	<u>\$ (15,265)</u>	<u>\$ 12,939</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

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

Fiscal Year	Current Interest Bonds			Capital Appreciation Bonds		
	<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ -	\$ 554	\$ 554	\$ 337	\$ 1,733	\$ 2,070
2015	2,070	502	2,572	-	-	-
2016	-	450	450	-	-	-
2017	-	450	450	-	-	-
2018	-	450	450	-	-	-
2019 - 2023	5,855	1,962	7,817	-	-	-
2024	3,150	79	3,229	-	-	-
Total	<u>\$ 11,075</u>	<u>\$ 4,447</u>	<u>\$ 15,522</u>	<u>\$ 337</u>	<u>\$ 1,733</u>	<u>\$ 2,070</u>

**C. Series 2013 General Obligation Refunding Bonds**

On May 8, 2013, the District issued Series 2013 general obligation refunding bonds to advance refund \$14.6 million of the Series 2005 current interest bonds. The issuance proceeds were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position. The principal balance outstanding of the defeased bonds was \$14.6 million at June 30, 2013.

The refunding issue is comprised of current interest bonds, par value \$14.585 million. The average interest rate on the current interest bonds is 5.00%.

The reacquisition price exceeded the net carrying amount of the old debt by \$1.517 million. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. This advance refunding was undertaken to reduce total debt service payments over the next 8 years by \$687,000 and resulted in an economic gain of \$643,000.

Interest payments on the current interest bonds are due on June 1 and December 1 each year. The final maturity stated of the issue is December 1, 2020.

The following is a schedule of activity for fiscal year 2013 on the Series 2013 general obligation refunding bonds (amounts in 000's):

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2013</u>
Current interest bonds	<u>\$ -</u>	<u>\$ 14,585</u>	<u>\$ -</u>	<u>\$ 14,585</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

The following is a summary of the future debt service requirements to maturity for the Series 2013 general obligation refunding bonds (amounts in 000's):

Fiscal Year	Current Interest Bonds			
	<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 235	\$ 667	\$ 902	
2015	5	621	626	
2016	2,145	575	2,720	
2017	2,235	480	2,715	
2018	2,335	381	2,716	
2019 -2021	<u>7,630</u>	<u>504</u>	<u>8,134</u>	
Total	<u>\$ 14,585</u>	<u>\$ 3,228</u>	<u>\$ 17,813</u>	

**D. Notes Payable**

During fiscal year 2002, the District issued \$6.165 million in Series 2002 tax anticipation notes. The Series 2002 notes bore annual interest rates ranging from 3.25% - 5.00% and matured on June 1, 2013. The Series 2002 notes were retired with tax revenues of the permanent improvement fund, a nonmajor governmental fund. The tax revenues collected by the permanent improvement fund are transferred to the debt service fund for payment of the principal and interest on the notes (See Note 5.B). These notes are considered long-term obligations since the proceeds were used for capital acquisition and construction. A summary of the tax anticipation note activity for the fiscal year ended June 30, 2013 follows (amounts in 000's):

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>
Tax anticipation note - Series 2002	\$ 730	\$ -	\$ (730)	\$ -
Total	<u>\$ 730</u>	<u>\$ -</u>	<u>\$ (730)</u>	<u>\$ -</u>

**E. Series 2000 Qualified Zone Academy Bonds**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

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

The QZAB Series 2000 bonds bear no interest and the QZAB Series 2001 bonds require stated annual interest payments. During fiscal year 2013, the District made \$1.220 million in sinking fund deposits. Since inception, a total of \$14.552 million in sinking fund deposits have been made by the District to retire the QZABs at maturity. These deposits are maintained by the District until maturity of the QZABs in fiscal year 2014 and 2016. The resources, being accumulated through the sinking fund, are reported in the debt service fund. On the fund financial statements and on the statement of net position, the fair market value of the investments accumulated in the sinking fund in the amount of \$14.610 million are reported as a restricted asset since the condition underlying the restriction will not be met in the short or medium term.

**F. Energy Conservation Bonds**

On December 14, 2010, the District issued \$6.729 million in energy conservation bonds (federally taxable qualified school construction bonds). The proceeds of these bonds were used for building improvements intended to increase the energy efficiency of the District's buildings. These bonds bear an annual interest rate of 5.43%, mature on December 1, 2025 and will be paid from the debt service fund. The District is required to make mandatory sinking fund deposits (consisting of cash and/or U.S. Treasury obligations) on December 1, in the following years and in the following amounts (in each case equal to the value of any cash deposits, plus the stated principal value at maturity of any U.S. Treasury obligations plus any interest to be paid thereon through and including the maturity date) (amounts in 000's):



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

<u>December 1 of year</u>	<u>Amounts Due</u>	<u>Amount Deposited</u>
2011	\$ 448	\$ 448
2012	449	449
2013	448	-
2014	448	-
2015	448	-
2016	449	-
2017	449	-
2018	448	-
2019	448	-
2020	449	-
2021	449	-
2022	449	-
2023	449	-
2024	449	-
2025	449	-
	<u>\$ 6,729</u>	<u>\$ 897</u>

The amount deposited is reported as a restricted asset on the basic financial statements.

The District receives a reimbursement from the United States Treasury equal to 100% of the lesser of the interest payments on the energy conservation bonds or the federal tax credits that would have otherwise been available to the holders of the energy conservation bonds. The District records this reimbursement as federal intergovernmental revenue in the debt service fund.

The following is a summary of future debt service requirements to maturity for the energy conservation bonds (amounts in 000's):

<u>Fiscal Year Ending</u>	Energy Conservation Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -	\$ 365	\$ 365
2015	-	366	366
2016	-	366	366
2017	-	365	365
2018	-	365	365
2019 - 2023	-	1,827	1,827
2024 - 2026	<u>6,729</u>	<u>913</u>	<u>7,642</u>
Total	<u>\$ 6,729</u>	<u>\$ 4,567</u>	<u>\$ 11,296</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

**G. Retirement Incentive Program and Health Care Reimbursement Arrangement**

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

In addition to severance payments, employees electing to retire under the RIP are entitled to a health care reimbursement arrangement (HRA) established by the District for the benefit of the retiring teachers and their spouses. Under the HRA, retiring teachers will receive payments, by year, in varying amounts between \$500 to \$5,300 which will be deposited by the District into a separate account established for the retired employee and their spouse. The HRA is effective until January 15, 2016 or until the retiree and his or her spouse become deceased. The amounts deposited to a retiree’s account may be carried forward over to subsequent years and shall not be subject to forfeiture, except upon the death of both the retiree and his or her spouse. The remainder of the liability has been recorded on the government-wide statement of net position as a component of “long-term liabilities”. The total estimated liability under the HRA at June 30, 2013 was \$3.955 million of which \$512,000 is expected to become due within one year. A total of 197 employees have retired under the HRA as of June 30, 2013. The total HRA liability was calculated based upon required payments under the HRA for each applicable employee.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)**

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

	Balance			Balance	Amounts
	June 30, 2012	Additions	Reductions	June 30, 2013	Due in
					One Year
<b>Governmental activities:</b>					
General obligation bonds:					
Current interest	\$ 25,675	\$ 14,585	\$ (14,600)	\$ 25,660	\$ 235
Capital appreciation	470	-	(133)	337	337
Accreted interest	1,640	419	(532)	1,527	1,527
QZAB's	16,100	-	-	16,100	14,000
Total G.O. bonds	<u>43,885</u>	<u>15,004</u>	<u>(15,265)</u>	<u>43,624</u>	<u>16,099</u>
Notes payable	730	-	(730)	-	-
Energy conservation bonds	6,729	-	-	6,729	-
Compensated absences payable	5,249	925	(952)	5,222	1,036
Health care reimbursement arrangement payable	4,001	-	(46)	3,955	512
Capital lease obligation	<u>453</u>	<u>-</u>	<u>(106)</u>	<u>347</u>	<u>37</u>
Total governmental activities long-term liabilities	61,047	<u>\$ 15,929</u>	<u>\$ (17,099)</u>	59,877	<u>\$ 17,684</u>
Add: unamortized premium	1,657			2,488	
Total on statement of net position	<u>\$ 62,704</u>			<u>\$ 62,365</u>	

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

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

**I. 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 District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2013 are a voted debt margin of \$24.317 million (including available funds of \$16.672 million) and an unvoted debt margin of \$553,000.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 100% coinsured. The District has obtained coverage from commercial insurance carriers. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$ 1,000,000	\$ 0
Aggregate	2,000,000	0
Building and contents	419,139,827	10,000
Non blanket buildings	250,000	10,000
Fleet:		
Liability	1,000,000	0
Uninsured motorist	1,000,000	0
Comprehensive	Actual cash value	250
Collision	Actual cash value	500
Umbrella liability	10,000,000	10,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from fiscal year 2012.

**B. Shared Risk Pool**

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

**C. Workers' Compensation Program**

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 11 - RISK MANAGEMENT - (Continued)**

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2013	\$ 305	\$ 50	\$ -	\$ 355
2012	235	402	(332)	305

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

**NOTE 12 - COMPENSATED ABSENCES**

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

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

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, 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](http://www.ohsers.org), under “Employers/Audit Resources”.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 13 - PENSION PLANS - (Continued)**

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 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$1.869 million, \$1.805 million and \$1.679 million, respectively; 70.41 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

**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 website at [www.strsoh.org](http://www.strsoh.org), under "Publications".

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 13 - PENSION PLANS - (Continued)**

Funding Policy - For fiscal year 2013, 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, 2013, 2012 and 2011 were \$7.026 million, \$7.085 million and \$7.216 million, respectively; 84.66 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were \$239,000 made by the District and \$170,000 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, 2013, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, 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 Section 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 monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the 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](http://www.ohsers.org), under "Employers/Audit Resources".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)**

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 2013, 0.16 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 2013, the actuarially determined amount was \$20,525.

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, 2013, 2012 and 2011 were \$238,000, \$295,000 and \$423,000, respectively; 70.41 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$106,000, \$107,000 and \$108,000, respectively; 70.41 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

**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](http://www.strsoh.org), under "Publications" 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 2013, 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, 2013, 2012 and 2011 were \$540,000, \$545,000 and \$555,000, respectively; 84.66 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.



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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues 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 assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ (3,214)
Net adjustment for revenue accruals	(710)
Net adjustment for expenditure accruals	(393)
Net adjustment for other sources/uses	80
Funds budgeted elsewhere	(80)
Adjustment for encumbrances	2,247
GAAP basis	\$ (2,070)

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the special trust fund, special services rotary fund, adult education fund, recreation fund and public school support fund.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 16 - SET-ASIDES**

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, 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 fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The District had offsets during the fiscal year that reduced the set-aside amount to zero for the capital improvements set-aside. During fiscal year 2001, the District issued \$46.706 million in capital related school improvement bonds. During fiscal year 2011, the District issued \$6.729 million in capital related energy conservation bonds. These proceeds may be used to reduce the capital improvements set-aside to zero for future years. The District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$40.923 million at June 30, 2013.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute (amounts in 000's).

	<u>Capital Improvements</u>
Set-aside balance June 30, 2012	\$ -
Current year set-aside requirement	1,608
Current year offsets	(1,110)
Prior year offset from bond proceeds	<u>(498)</u>
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2014	<u>\$ -</u>
Set-aside balance June 30, 2013	<u>\$ -</u>

**NOTE 17 - 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 general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District at June 30, 2013.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 17 - CONTINGENCIES - (Continued)**

**B. Litigation**

The District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

**NOTE 18 - OTHER COMMITMENTS**

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year-end, the District's commitments for encumbrances in the governmental funds were as follows (amounts in 000's):

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 1,183
Other governmental	<u>2,968</u>
Total	<u>\$ 4,151</u>

**NOTE 19 - FISCAL CAUTION**

The District was placed in fiscal caution on March 22, 2007 by the Department of Education (ODE). On May 21, 2007, the District and ODE outlined a plan to address the fiscal caution. As a result, the District made reductions in personnel and expenditures and closed several buildings.

THIS SECTION IS INTENTIONALLY LEFT BLANK

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTE 20 - FUND BALANCE**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below (amounts in 000's):

Fund balance	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Materials and supplies inventory	\$ 116	\$ -	\$ 56	\$ 172
Prepays	<u>60</u>	<u>-</u>	<u>1</u>	<u>61</u>
Total nonspendable	<u>176</u>	<u>-</u>	<u>57</u>	<u>233</u>
Restricted:				
Debt service	-	16,672	-	16,672
Capital improvements	-	-	6,377	6,377
Classroom facilities maintenance	-	-	2,192	2,192
Food service operations	-	-	4,029	4,029
Non-public schools	-	-	27	27
Extracurricular	-	-	282	282
Targeted academic assistance	-	-	600	600
Other purposes	<u>-</u>	<u>-</u>	<u>1,323</u>	<u>1,323</u>
Total restricted	<u>-</u>	<u>16,672</u>	<u>14,830</u>	<u>31,502</u>
Assigned:				
Student instruction	371	-	-	371
Student and staff support	971	-	-	971
Adult education	687	-	-	687
Subsequent year's appropriations	1,488	-	-	1,488
Other purposes	<u>153</u>	<u>-</u>	<u>-</u>	<u>153</u>
Total assigned	<u>3,670</u>	<u>-</u>	<u>-</u>	<u>3,670</u>
Unassigned (deficit)	<u>-</u>	<u>-</u>	<u>(392)</u>	<u>(392)</u>
Total fund balances	<u>\$ 3,846</u>	<u>\$ 16,672</u>	<u>\$ 14,495</u>	<u>\$ 35,013</u>

January 31, 2014

To the Board of Education and Management  
Canton City School District  
Stark County, Ohio  
1312 5th Street SW  
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, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Canton City School District, Stark County, Ohio (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 31, 2014 in which we noted the District restated the fund balance and net position balance to correct errors and omissions in the calculations of certain liabilities previously reported.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 finding 2013-001 described in the accompanying schedule of findings and questioned costs to be a material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the findings 2013-002 and 2013-003 described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The District's Response to Findings**

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rea & Associates, Inc.*

New Philadelphia, Ohio

January 31, 2014

To the Board of Education and Management  
Canton City School District  
Stark County, Ohio  
1312 5th Street SW  
Canton, OH 44707

**Independent Auditor's Report on Compliance for Each Major Federal Program and  
Report on Internal Control over Compliance  
Required by OMB Circular A-133**

**Report on Compliance for Each Major Federal Program**

We have audited Canton City School District's, Stark County, Ohio (the "District") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. 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.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

**Report on Internal Control over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Rea & Associates, Inc.*

New Philadelphia, Ohio



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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>Federal Grantor/ Sub Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Grant Year</b>	<b>Receipts</b>	<b>Expenditures</b>
<b><u>U.S. Department of Education</u></b>				
(Direct)				
Impact Aid	84.041	2013	\$ 28,620	\$ 30,213
Student Financial Assistance Cluster:				
Federal Pell Grant Program	84.063	2013	321,876	321,876
Federal Direct Student Loans	84.268	2013	<u>401,321</u>	<u>401,321</u>
<i>Total Student Financial Assistance Cluster</i>			723,197	723,197
(Passed through the Ohio Department of Education)				
Adult Education - Basic Grants to States	84.002	2012	0	33,759
		2013	622,641	604,646
		2013	<u>32,811</u>	<u>32,811</u>
<i>Total Adult Education - Basic Grants to States</i>			655,452	671,216
Title I Grants to Local Educational Agencies	84.010	2012	1,126,440	1,013,595
		2013	5,269,511	5,677,278
Title I School Improvement		2012	75,819	83,621
		2013	160,623	198,940
Title I-D		2012	1,612	1,676
		2013	<u>4,694</u>	<u>4,765</u>
<i>Total Title I Grants to Local Educational Agencies</i>			6,638,699	6,979,875
Special Education Cluster:				
Special Education Grants to States	84.027	2012	199,462	664,117
		2013	2,166,252	1,959,252
Parent Mentor Grant		2012	5,639	10,299
		2013	<u>33,140</u>	<u>32,956</u>
<i>Total Special Education Grants to States</i>			2,404,493	2,666,624
Special Education Preschool Grants	84.173	2012	0	(2,131)
		2013	<u>88,954</u>	<u>83,074</u>
<i>Total Special Education Preschool Grants</i>			<u>88,954</u>	<u>80,943</u>
<i>Total Special Education Cluster</i>			2,493,447	2,747,567

CONTINUED

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>Federal Grantor/ Sub Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Grant Year</b>	<b>Receipts</b>	<b>Expenditures</b>
Career and Technical Education - Basic Grants to States	84.048	2012	\$ 108,404	\$ 124,579
		2013	<u>199,273</u>	<u>270,951</u>
<i>Total Career and Technical Education - Basic Grants to States</i>			307,677	395,530
Education for Homeless Children and Youth	84.196	2012	30,962	21,075
		2013	<u>61,642</u>	<u>91,751</u>
<i>Total Education for Homeless Children and Youth</i>			92,604	112,826
Even Start State Educational Agencies	84.213	2012	12,374	23,470
Twenty-First Century Community Learning Centers	84.287	2012	2,370	38,866
		2013	<u>111,096</u>	<u>136,666</u>
<i>Total Twenty-First Century Community Learning Centers</i>			113,466	175,532
Education Technology State Grants	84.318	2012	59,654	44,285
Improving Teacher Quality State Grants	84.367	2012	199,906	189,794
		2013	<u>876,353</u>	<u>976,852</u>
<i>Total Improving Teacher Quality State Grants</i>			1,076,259	1,166,646
ARRA - Race-to-the Top Incentive Grants, Recovery Act	84.395	2012	1,300	92,570
ARRA - School Improvement Grants, Recovery Act	84.388	2012	33,033	28,867
Education Jobs Fund	84.410	2012	440,303	567,374
(Passed through the National Council for Community and Education Partnership)				
English Language Acquisition State Grants	84.365	2012	23,499	26,159
		2013	<u>1,637</u>	<u>4,784</u>
<i>Total English Language Acquisition State Grants</i>			<u>25,136</u>	<u>30,943</u>
<b>Total U.S. Department of Education</b>			<u>12,701,221</u>	<u>13,790,111</u>

CONTINUED

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

<b>Federal Grantor/ Sub Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Grant Year</b>	<b>Receipts</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>				
(Passed through the Ohio Department of Education)				
Child Nutrition Expansion	10.560	2013	\$ 2,000	\$ 2,000
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution)				
National School Lunch Program	10.555	2013	198,611	198,611
Cash Assistance				
School Breakfast Program	10.553	2013	951,456	951,456
National School Lunch Program	10.555	2013	<u>3,308,036</u>	<u>3,308,036</u>
<i>Total Child Nutrition Cluster</i>			<u>4,458,103</u>	<u>4,458,103</u>
<b>Total U.S. Department of Agriculture</b>			<u>4,460,103</u>	<u>4,460,103</u>
<b>U.S. Department of Labor</b>				
(Passed through Service Delivery Area No. 23)				
Workforce Investment Act Youth Activities	17.259	2011	<u>1,097</u>	<u>65</u>
<b>Total U.S. Department of Labor</b>			<u>1,097</u>	<u>65</u>
<b>U.S. Department of Health and Human Services</b>				
(Passed through the Ohio Department of Jobs and Family Services)				
Temporary Assistance for Needy Families				
Student Intervention	93.558	N/A	<u>0</u>	<u>4,147</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>0</u>	<u>4,147</u>
<b>Total</b>			<u>\$ 17,162,421</u>	<u>\$ 18,254,426</u>

The accompanying notes are an integral part of this schedule.

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

*Notes to the Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2013*

**Note A – Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Canton City School District, Stark County, Ohio (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, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of 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 – Federal Direct Student Loan Program**

The District participates in the William D. Ford Federal Direct Loan Program. The District originates the loans which are then funded through the U.S. Department of Education.

**Note E - 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. For fiscal year 2013 grant year, the ODE authorized the following transfers:

<u>CFDA #</u>	<u>Grant Title</u>	<u>Grant Year</u>	<u>Transfers Out</u>	<u>Transfers In</u>
84.010	Title I	2013	\$ 24,726	
84.010	Title I	2014		\$ 24,726
84.010	Title I – School Improvement	2013	\$ 2,322	
84.010	Title I – School Improvement	2014		\$ 2,322
84.367	Title II-A	2013	\$ 110,020	
84.367	Title II-A	2014		\$ 110,020

**Canton City School District**  
**Stark County, Ohio**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133, Section .505*  
*For the Fiscal Year Ended June 30, 2013*

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(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 significant deficiency conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d) (1) (iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unmodified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Student Financial Assistance Cluster:  Adult Education - Basic Grants to States Special Education Cluster:  Improving Teacher Quality State Grants Child Nutrition Cluster:	CFDA #84.063 Federal Pell Grant Program #84.268 Federal Direct Student Loans #84.002 #84.027 Special Education Grants to States #84.173 Parent Mentor Grant #84.367 #10.555 National School Lunch Program #10.553 School Breakfast Program
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$547,633 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

**Canton City School District**  
**Stark County, Ohio**  
*Schedule of Findings and Questioned Costs (Continued)*  
*OMB Circular A-133, Section .505*  
*For the Fiscal Year Ended June 30, 2013*

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Material Weakness – Internal Controls over Financial Reporting**

**Finding Number:** 2013-001

**Criteria:** 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. 122 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. 122 lists specific examples of control deficiencies that are strong indicators of a material weakness in internal control.

**Condition:** There were material restatements and audit adjustments made to the financial statements presented for audit. Also, accounting specialists prepared and post journal entries to the accounting system with no evidence of an additional level of review and approval.

**Cause:** There were two factors that resulted in the adjustments to the financial statements, each independent of the other, identified below:

- Reports from the accounting system and other workpapers prepared by management and provided to the GAAP compilation team were not accurate and complete in all cases in fiscal years 2012 and 2013.
- Management’s controls over reviewing and approving the GAAP compilation failed to detect and correct errors, omissions, misclassifications and the incorrect application of GAAP in some cases in fiscal years 2012 and 2013.
- Monitoring controls over journal entries and correcting entries posted by to the accounting system by accounting specialists are deficient.

**Effect:** As a result of these conditions, the following misstatements on the financial statements presented for audit existed:

- Statement of Net Position
  - Equity in pooled cash and investments was overstated by \$1.250 million
  - Restricted equity in pooled cash and investments was understated by \$1.250 million
  - Net position restricted for debt service was overstated by \$0.208 million
  - Net position restricted for student activities was understated by \$0.232 million
  - Net position unrestricted was overstated by \$0.024 million
- Statement of Activities
  - Beginning net position was overstated by \$1.075 million
  - Expenses were overstated by a total of \$1.291 million
  - Investment earnings were overstated by \$0.024 million
  - Miscellaneous revenues were overstated by \$0.192 million

**Canton City School District**  
**Stark County, Ohio**  
*Schedule of Findings and Questioned Costs (Continued)*  
*OMB Circular A-133, Section .505*  
*For the Fiscal Year Ended June 30, 2013*

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
---

**Material Weakness – Internal Controls over Financial Reporting (Continued)**

**Finding Number: 2013-001 (Continued)**

**Effect: (Continued)**

- Balance Sheet – Governmental Funds
  - Equity in pooled cash and investments was overstated by \$0.024 million in the general fund
  - Equity in pooled cash and investments was overstated by \$1.458 million in the debt service fund
  - Equity in pooled cash and investments was understated by \$0.232 million in the nonmajor governmental funds
  - Restricted equity in pooled cash and investments in the debt service fund was understated by \$1.250 million
  - Health care reimbursement arrangement payable was overstated by \$2.885 million in the general fund
  - Assigned fund balances were understated by \$2.861 million in the general fund
  - Restricted fund balances were overstated by \$0.208 million in the debt service fund
  - Restricted fund balances were understated by \$0.232 million in the nonmajor governmental funds
- Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
  - Beginning fund balance of the general fund was understated by \$1.195 million
  - Earnings on investments were overstated by \$0.024 million in the general fund
  - Other local revenues were overstated by \$0.192 million in the debt service fund
  - Expenditures were overstated by a total of \$0.615 million in the general fund
  - Expenditures were understated by a total of \$0.016 million in the debt service fund
  - Expenditures were overstated by a total of \$0.232 million in the nonmajor governmental funds

**Recommendation:** To ensure the District’s financial statements and notes to the financial statements are complete and accurate, the District should adopt policies and procedures, including a final review of the statements and notes by the appropriate levels of management, to identify and correct errors and omissions. Also, journal entries and correcting entries posted by the District Treasurer’s office accounting specialists should be reviewed and formally approved by the District Treasurer to provide appropriate segregation of duties and oversight.

**Management’s Response:** The District Treasurer will review with staff the results of system-derived reports prior to formal submission and will implement policies and procedures for formal review of journal entry postings to the general ledger.

**Canton City School District**  
**Stark County, Ohio**  
*Schedule of Findings and Questioned Costs (Continued)*  
*OMB Circular A-133, Section .505*  
*For the Fiscal Year Ended June 30, 2013*

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**Significant Deficiency – Capital Assets**

**Finding Number: 2013-002**

**Criteria:** The “Guide to Implementation of GASB Statement 34 and Related Pronouncements” indicates that for significant assets, the assigned estimated useful lives should be reconsidered. Assets still in use should not be reported as fully depreciated. Numerous fully depreciated capital assets were noted as remaining in the District’s capital asset records as of June 30, 2012. As these assets are still in use, their estimated useful lives should be reconsidered.

The District's capital assets policy indicates a capitalization threshold of \$5,000 is to be used. In addition, the policy also indicates the Board elects to capitalize quantity purchases that individually would not meet the criteria for capital assets. However, the GAAP compilation team does not take the capitalization of quantity purchases portion of the policy into consideration when preparing the capital asset work papers.

The District's capital assets policy lacks details regarding the District's depreciation practices such as estimates of useful lives and salvage values, procedures for the depreciation of additions and retirements, and the accounting for fully depreciated assets.

**Condition:** While performing audit procedures regarding capital assets, we noted the District’s capital asset policy does not require a physical inventory inspection. The policy does not provide enough information regarding how depreciation is to be calculated. Capital asset additions are not being entered by the purchasing department to the capital asset software correctly or on a timely basis to allow additions to be reported in the proper period. Items individually below the \$5,000 capitalization threshold which were previously recorded as capital assets as part of a quantity purchase are being reported as disposals in the District’s accounting system, but are not properly updated in the Microsoft Excel files maintained by the GAAP compilation team which are used to support the capital asset activity and balances on the financial statements. The sale of land and a building were not reported as a disposal on the District’s capital asset accounting system nor reflected in the financial statements.

**Cause:** There are insufficient policies and internal controls over capital asset reporting.

**Effect:** The lack of physical inventory inspections increases the risk of assets being lost, stolen or misappropriated without detection and correction. The lack of sufficient policies regarding depreciation increases the chance of inconsistencies and errors in financial statements. When an item with an individual acquisition cost of less than \$5,000 is reported properly as a disposal and the GAAP compilation team does not reflect the disposal properly, fully depreciated assets that are no longer in operation will never be taken off the books. When capital asset addition’s “place in-service” dates are entered to the capital asset accounting system incorrectly or not in a timely manner, capital asset additions are reported in the wrong period or completely omitted. A combination of these factors resulted in unrecorded immaterial differences to the financial statements, individually and in the aggregate.



**Canton City School District**  
**Stark County, Ohio**  
*Schedule of Findings and Questioned Costs (Continued)*  
*OMB Circular A-133, Section .505*  
*For the Fiscal Year Ended June 30, 2013*

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**Significant Deficiency – Capital Assets (Continued)**

**Finding Number: 2013-002 (Continued)**

**Recommendation:** We recommend the District re-evaluate current asset useful lives in order to determine if the assigned useful life is reasonable. We also recommend the District ensure the GAAP compilation team is compiling the capital asset work papers in accordance with the District's capital assets policy. We further recommend the District update the District's capital asset policy to include details regarding the District's depreciation practices and the requirement of an annual physical inventory inspection. The policy should specify when depreciation will be expensed monthly, a half year or full year in the year of acquisition. The District should implement policies and procedures to ensure all capital asset disposals are communicated to the GAAP compilation team.

**Management's Response:** The District's capital asset policy will be updated by management to reflect the recommendations noted in the fiscal year 2013 audit and will be shared with the purchasing department. In addition, the procedures surrounding the maintenance of the District's capital asset listing will be reviewed with the purchasing department and recommendations for improving the process will be adopted.

**Canton City School District**  
**Stark County, Ohio**  
*Schedule of Findings and Questioned Costs (Continued)*  
*OMB Circular A-133, Section .505*  
*For the Fiscal Year Ended June 30, 2013*

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**Significant Deficiency – Health Care Reimbursement Annual Reports**

**Finding Number: 2013-003**

**Criteria:** The District is responsible for preparing and maintaining certain schedules that are necessary to convert the District’s cash basis accounting records to financial statements that conform to GAAP.

**Condition:** During our audit procedures regarding the health care reimbursement arrangement long-term liability, we noted errors in the schedule prepared and maintained by management. The District updates this schedule annually for payments made to the health care claims administrator which reduces the long-term liability. During fiscal year 2013, this schedule was not completed properly as the reported payments on the schedule did not agree to reports we obtained from the claims administrator and the District’s general ledger accounts for these payments.

**Cause:** The District has a lack of internal controls regarding the schedule prepared and maintained by management to ensure the schedule is accurate and complete. The District does not request or receive annual reports from the claims administrator and reconcile the schedule to the general ledger expense accounts. There is a lack of a proper review and approval over the preparation of this schedule.

**Effect:** There is an immaterial overstatement of the long-term liabilities that has not been adjusted in the audited financial statements.

**Recommendation:** We recommend the District request at least annual statements from the claims administrator to assist in preparing the schedule and allowing the District to closely monitor the processing performed by the claims administrator, which is a service organization that processes claims on behalf of the District without the pre-approval of semi-monthly ACH debits from the District’s bank account. We further recommend the schedule be reviewed and formally approved by a separate member of management to ensure proper recording. The District should also compare the annual reports from the claims administrator to the expenses posted to the general ledger to ensure proper posting of the transactions.

**Management’s Response:** Management will request annual statements from the District’s third party health care claims administrator and reconcile the statement to the appropriate general ledger expense accounts.

**Canton City School District**  
**Stark County, Ohio**  
*Schedule of Findings and Questioned Costs (Continued)*  
*OMB Circular A-133, Section .505*  
*For the Fiscal Year Ended June 30, 2013*

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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**None.**

**Canton City School District**  
**Stark County, Ohio**  
*Schedule of Prior Audit Findings*  
*OMB Circular A-133, Section .315(b)*  
*For the Fiscal Year Ended June 30, 2013*

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain</b>
2012-001	<p>Special Education Cluster – CFDA# 84.027, 84.391, 84.173 and 84.392</p> <p>Improving Teacher Quality State Grants – CFDA# 84.367</p> <p>Procurement, Suspension and Debarment - The District did not verify that the person with whom they intended to do business under a covered transaction was not excluded or disqualified.</p>	Yes	Corrected

January 31, 2014

To the Board of Education and Management  
Canton City School District  
Stark County, Ohio  
1312 5th Street SW  
Canton, OH 44707

### **Independent Accountant's Report on Applying Agreed-Upon Procedure**

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

1. We noted the Board amended its anti-harassment policy at its meeting on September 9, 2013 to include prohibiting harassment, intimidation, or bullying of any student “on a school bus” or by an “electronic act.”

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 management and is not intended to be and should not be used by anyone other than these specified parties.

*Rea & Associates, Inc.*

New Philadelphia, Ohio

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# Dave Yost • Auditor of State

**CANTON CITY SCHOOL DISTRICT**

**STARK COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 15, 2014**