



Rea & associates a *brighter* way

Canton City School District

Stark County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2014



Dave Yost • Auditor of State

Board of Education
Canton City School District
1312 5th Street SW
Canton, OH 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, 2013 through June 30, 2014. 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 15, 2015

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Canton City School District
Stark County, Ohio
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December 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 "School District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School 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, 2014, 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.

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 5 - 12 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 School 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 December 31, 2014 on our consideration of the School 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 School District's internal control over financial reporting and compliance.

Hea & Associates, Inc.

New Philadelphia, Ohio

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Canton City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The discussion and analysis of the Canton City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2014 are as follows:

- Net position decreased \$1,407,618, which represents a 0.9 percent decrease from 2013.
- Capital assets decreased \$2,544,668 during fiscal year 2014.
- During the year, outstanding debt decreased from \$50,699,285 to \$34,582,424 due to principal payments made by the School District

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School District as a whole 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 School District, presenting both an aggregate view of the School 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 School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Canton City School District, the general and the debt service funds are by far the most significant funds.

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2014?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Canton City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

These two statements report the School District's net position and changes in net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School 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 School District's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the *Statement of Net Position* and the *Statement of Activities*, governmental activities include the School District's programs and services, including instruction, support services, extracurricular activities, and non-instructional services, i.e., food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds Most of the School 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 School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Fund The School District maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses internal service funds to account for workers' compensation and warehouse service programs. Because this service predominately benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements. The proprietary fund financial statements begin on page 20.

Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for some of its scholarship programs. This activity is presented as a private purpose trust fund. The School 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 agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 23 and 24. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

Canton City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2014 compared to 2013:

Table 1
Net Position

	Governmental Activities	
	2014	2013
Assets		
Current and Other Assets	\$ 68,862,098	\$ 73,462,480
Restricted Assets	3,248,404	15,506,387
Capital Assets	175,521,598	178,066,266
<i>Total Assets</i>	<u>247,632,100</u>	<u>267,035,133</u>
Deferred Outflows of Resources	<u>1,826,711</u>	<u>2,084,428</u>
Liabilities		
Other Liabilities	16,183,847	15,693,311
Long-Term Liabilities	44,044,683	62,364,456
<i>Total Liabilities</i>	<u>60,228,530</u>	<u>78,057,767</u>
Deferred Inflows of Resources	<u>26,665,520</u>	<u>27,089,415</u>
Net Position		
Net Investment in Capital Assets	140,436,461	130,767,996
Restricted	22,266,277	28,874,959
Unrestricted	(137,977)	4,329,424
<i>Total Net Position</i>	<u>\$ 162,564,761</u>	<u>\$ 163,972,379</u>

At year end, capital assets represented 71 percent of total assets. Capital assets include land, buildings and improvements, land improvements, furniture, equipment, vehicles and construction in progress. The net investment in capital assets was \$140,436,461 at June 30, 2014. These capital assets are used to provide services to students and are not available for future spending. Although the School 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 School District's net position, \$22,266,277 or 14 percent, represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position leaves a deficit of \$137,977 for the government's ongoing obligations to students and creditors.

The School District saw a \$16,858,365 decrease in current and other assets and a \$18,319,773 decrease in long-term liabilities during fiscal year 2014. Cash and investments were used to pay the capital appreciation and QZAB bonds that matured during 2014. The decrease in current assets was partially offset by a \$2.4 million dollar increase in grants receivable due to an increase in federal grants and the timing of grant receipts during fiscal year 2014.

Canton City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Table 2 shows the changes in net position for fiscal year 2014 and 2013.

Table 2
Changes in Net Position

	Governmental Activities	
	2014	2013
Revenues		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$ 2,735,213	\$ 2,987,102
Operating Grants, Contributions and Interest	31,593,655	27,046,015
<i>Total Program Revenues</i>	<u>34,328,868</u>	<u>30,033,117</u>
<i>General Revenues:</i>		
Property Taxes	27,732,133	30,023,033
Grants and Entitlements Not Restricted	73,082,217	69,738,302
Other	938,086	264,000
<i>Total General Revenues</i>	<u>101,752,436</u>	<u>100,025,335</u>
<i>Total Revenues</i>	<u>136,081,304</u>	<u>130,058,452</u>
Program Expenses		
<i>Instruction:</i>		
Regular	42,977,497	42,348,646
Special	18,854,210	17,386,654
Vocational	2,294,449	2,317,318
Adult/Continuing	1,394,022	1,557,708
Student Intervention Services	15,775,806	13,879,213
Other	31,247	0
<i>Support Services:</i>		
Pupils	7,442,292	6,810,465
Instructional Staff	4,613,455	7,292,707
Board of Education	21,825	30,219
Administration	12,022,118	9,283,011
Fiscal	1,968,674	1,803,560
Business	599,975	471,253
Operation and Maintenance of Plant	12,170,221	11,317,487
Pupil Transportation	3,446,325	4,139,833
Central	2,216,861	3,005,393
<i>Operation of Non-Instructional Services:</i>		
Food Service Operations	5,161,071	4,379,986
Community Services	1,829,801	2,088,752
Extracurricular Activities	2,953,848	2,691,052
<i>Debt Service:</i>		
Interest and Fiscal Charges	1,715,225	2,083,531
Issuance Costs	0	164,904
<i>Total Expenses</i>	<u>137,488,922</u>	<u>133,051,692</u>
<i>Increase (Decrease) in Net Position</i>	(1,407,618)	(2,993,240)
<i>Net Position at Beginning of Year</i>	<u>163,972,379</u>	<u>166,965,619</u>
<i>Net Position at End of Year</i>	<u>\$ 162,564,761</u>	<u>\$ 163,972,379</u>

Canton City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The School District had a \$4,547,640 increase in operating grants that was caused by an increase in federal revenue received during 2014 and an increase in grants receivable. Property tax revenue decreased \$2,290,900. This was primarily caused by a large increase in delinquent property taxes during fiscal year 2013. Grants and entitlements not restricted increased due to an increase in foundation received from the State.

There was a \$1,896,593 increase in student intervention expenses that was caused by an increase in tuition paid to other school districts and community schools. The \$2,739,107 increase in administration expense was primarily due to an increase in salaries and benefits paid. There were also fluctuations between support services instructional staff expenses and special education instruction expenses due to the re-coding of expenses in accordance with the revised expenditure standards approved by the State Board of Education on December 11, 2012. The expenditure standards revisions addressed operating expenditures and classroom instruction versus non-classroom expenditures.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Service		Net Cost of Service	
	2014	2013	2014	2013
Instruction:				
Regular	\$ 42,977,497	\$ 42,348,646	\$ 41,186,666	\$ 40,889,191
Special	18,854,210	17,386,654	2,704,297	5,276,417
Vocational	2,294,449	2,317,318	1,237,432	1,392,125
Adult/Continuing	1,394,022	1,557,708	(356,317)	(105,042)
Student Intervention Services	15,775,806	13,879,213	15,775,806	13,879,213
Other	31,247	0	31,247	0
Support Services:				
Pupils	7,442,292	6,810,465	6,421,434	6,189,729
Instructional Staff	4,613,455	7,292,707	804,464	2,485,223
Board of Education	21,825	30,219	21,825	30,219
Administration	12,022,118	9,283,011	11,003,713	8,483,716
Fiscal	1,968,674	1,803,560	1,794,293	1,330,492
Business	599,975	471,253	578,630	471,253
Operation and Maintenance of Plant	12,170,221	11,317,487	11,702,440	10,805,063
Pupil Transportation	3,446,325	4,139,833	2,582,689	3,582,606
Central	2,216,861	3,005,393	2,111,400	2,676,444
Operation of Non-Instructional Services:				
Food Service Operations	5,161,071	4,379,986	214,934	(463,661)
Community Services	1,829,801	2,088,752	1,253,219	1,585,165
Extracurricular Activities	2,953,848	2,691,052	2,376,657	2,261,987
Debt Service:				
Interest and Fiscal Charges	1,715,225	2,083,531	1,715,225	2,083,531
Issuance Costs	0	164,904	0	164,904
Total Expenses	\$ 137,488,922	\$ 133,051,692	\$ 103,160,054	\$ 103,018,575

Canton City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The dependence upon general revenues for governmental activities is apparent. Over 75 percent of governmental activities are supported through taxes and other general revenues; such revenues are 75 percent of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

Governmental Funds

Information about the School District's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$131,674,811 and expenditures of \$152,162,065 for the fiscal year.

The general fund's net change in fund balance for fiscal year 2014 was a decrease of \$5,683,998. The School District had an increase of \$4,290,276 in revenue that was primarily caused by an increase in state foundation receipts. This was offset by an \$8,476,865 increase in expenditures. This increase was caused by an increase in tuition paid to other schools, an increase in salaries and benefits, repair and maintenance projects throughout the School District and technology equipment purchased for instructional purposes.

The fund balance of the debt service fund decreased \$13,178,253. In prior years, the School District accumulated money in a sinking fund for their 2000 QZAB bonds. In fiscal year 2014, these bonds matured and the School District expended \$14,000,000 to retire them.

General Fund Budgeting Highlights

The School 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 2014, the School District did amend its general fund budget a few times. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, actual budget basis revenue, including other financing sources, of \$106,882,136 was higher than the final budget basis revenue by \$11,149,079. Most of this difference is due to an error in the method that was used to calculate the estimated resources.

Final appropriations, including other financing uses, of \$114,665,391 were only \$70,592 higher than the actual expenditures of \$114,594,799.

Canton City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2014, the School District had \$175,521,598 invested in capital assets. Table 4 shows fiscal year 2014 balances compared with 2013.

Table 4
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2014	2013
Land	\$ 17,406,386	\$ 17,412,670
Construction in Progress	207,938	1,022,099
Land Improvements	3,086,139	3,315,787
Buildings and Building Improvements	149,468,670	152,837,833
Furniture and Fixtures	4,133,756	2,672,353
Vehicles	1,218,709	805,524
<i>Totals</i>	<u>\$ 175,521,598</u>	<u>\$ 178,066,266</u>

The \$2,544,668 decrease in capital assets was attributable to current year depreciation and disposals exceeding additional purchases. See Note 8 for more information about the capital assets of the School District.

Debt

At June 30, 2014, the School District had \$34,582,424 in debt outstanding. See Note 10 for additional details. Table 5 summarizes debt outstanding.

Table 5
Outstanding Debt at Year End

	Governmental Activities	
	2014	2013
General Obligation Bonds	\$ 27,525,000	\$ 43,623,787
Energy Conservation Bonds	6,728,636	6,728,636
Lease Obligations	328,788	346,862
<i>Total</i>	<u>\$ 34,582,424</u>	<u>\$ 50,699,285</u>

Canton City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Current Issues

Declining enrollment continues to be the School District's number one problem. The main reasons for this appears to be students switching to community schools and people moving out of the School 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 School District is facing is the decrease in the assessed valuation of the real estate located within the School District's boundaries. This decrease would lead to less property tax revenue generating ability for any future levies placed on the ballot.

Contacting the School District's Financial Management

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

Canton City School District
Stark County, Ohio
Statement of Net Position
June 30, 2014

	Governmental Activities
Assets	
Equity in Pooled Cash and Investments	\$ 24,453,974
Inventory Held For Resale	49,584
Materials and Supplies Inventory	134,015
Receivables:	
Intergovernmental	7,028,398
Property Taxes	37,196,127
Restricted Assets:	
Equity in Pooled Cash and Investments	1,902,678
Cash and Investments with Escrow Agent	1,345,726
Nondepreciable Capital Assets	17,614,324
Depreciable Capital Assets (Net)	157,907,274
<i>Total Assets</i>	247,632,100
Deferred Outflows of Resources	
Deferred Charges on Debt Refunding	1,826,711
Liabilities	
Accounts Payable	1,305,045
Accrued Wages and Benefits	10,976,820
Contracts Payable	149,800
Intergovernmental Payable	2,855,176
Matured Compensated Absences Payable	589,332
Accrued Interest Payable	124,886
Claims Payable	182,788
Long Term Liabilities:	
Due Within One Year	3,967,924
Due In More Than One Year	40,076,759
<i>Total Liabilities</i>	60,228,530
Deferred Inflows of Resources	
Property Taxes Levied for the Next Year	26,665,520
Net Position	
Net Investment in Capital Assets	140,436,461
Restricted For:	
Capital Outlay	5,771,331
Debt Service	4,604,373
Classroom Facilities Maintenance	2,613,302
Food Service Operations	4,289,464
Other Purposes	4,987,807
Unrestricted	(137,977)
<i>Total Net Position</i>	\$ 162,564,761

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, 2014

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 42,977,497	\$ 249,255	\$ 1,541,576	\$ (41,186,666)
Special	18,854,210	57,657	16,092,256	(2,704,297)
Vocational	2,294,449	32,392	1,024,625	(1,237,432)
Adult/Continuing	1,394,022	929,463	820,876	356,317
Student Intervention Services	15,775,806	0	0	(15,775,806)
Other	31,247	0	0	(31,247)
Support Services:				
Pupils	7,442,292	64,232	956,626	(6,421,434)
Instructional Staff	4,613,455	0	3,808,991	(804,464)
Board of Education	21,825	0	0	(21,825)
Administration	12,022,118	0	1,018,405	(11,003,713)
Fiscal	1,968,674	0	174,381	(1,794,293)
Business	599,975	0	21,345	(578,630)
Operation and Maintenance of Plant	12,170,221	467,781	0	(11,702,440)
Pupil Transportation	3,446,325	0	863,636	(2,582,689)
Central	2,216,861	16,194	89,267	(2,111,400)
Operation of Non-Instructional Services:				
Food Service Operations	5,161,071	284,835	4,661,302	(214,934)
Community Services	1,829,801	74,268	502,314	(1,253,219)
Extracurricular Activities	2,953,848	559,136	18,055	(2,376,657)
Debt Service:				
Interest and Fiscal Charges	1,715,225	0	0	(1,715,225)
Total	\$ 137,488,922	\$ 2,735,213	\$ 31,593,655	(103,160,054)

General Revenues

Property Taxes Levied for:

General Purposes	23,390,413
Debt Service	3,947,813
Capital Outlay	393,907
Grants and Entitlements Not Restricted to Specific Programs	73,082,217
Investment Earnings	62,711
Miscellaneous	875,375
Total General Revenues	101,752,436

Change in Net Position

(1,407,618)

Net Position Beginning of Year

163,972,379

Net Position End of Year

\$ 162,564,761

See accompanying notes to the basic financial statements.

Canton City School District
Stark County, Ohio
Balance Sheet
Governmental Funds
June 30, 2014

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	\$ 9,611,619	\$ 86,819	\$ 14,446,550	\$ 24,144,988
Restricted Cash and Investments	0	1,902,678	0	1,902,678
Restricted Cash and Investments with Escrow Agent	0	1,345,310	416	1,345,726
Inventory Held For Resale	0	0	49,584	49,584
Materials and Supplies Inventory	107,633	0	26,382	134,015
Receivables:				
Interfund	447,359	0	0	447,359
Intergovernmental	733,158	0	6,295,240	7,028,398
Property Taxes	31,131,310	4,766,414	1,298,403	37,196,127
<i>Total Assets</i>	<u>\$ 42,031,079</u>	<u>\$ 8,101,221</u>	<u>\$ 22,116,575</u>	<u>\$ 72,248,875</u>
Liabilities				
Accounts Payable	\$ 864,347	\$ 0	\$ 436,147	\$ 1,300,494
Accrued Wages and Benefits	9,483,212	0	1,493,608	10,976,820
Contracts Payable	0	0	149,800	149,800
Intergovernmental Payable	2,360,510	0	344,808	2,705,318
Matured Compensated Absences Payable	420,681	0	168,651	589,332
Interfund Payable	0	0	447,359	447,359
<i>Total Liabilities</i>	<u>13,128,750</u>	<u>0</u>	<u>3,040,373</u>	<u>16,169,123</u>
Deferred Inflows of Resources				
Property Taxes Levied for the Next Year	22,354,873	3,371,962	938,685	26,665,520
Unavailable Revenue	8,385,986	1,235,679	5,242,051	14,863,716
<i>Total Deferred Inflows of Resources</i>	<u>30,740,859</u>	<u>4,607,641</u>	<u>6,180,736</u>	<u>41,529,236</u>
Fund Balances				
Nonspendable	107,633	0	26,382	134,015
Restricted	0	3,493,580	13,753,506	17,247,086
Unassigned	(1,946,163)	0	(884,422)	(2,830,585)
<i>Total Fund Balances</i>	<u>(1,838,530)</u>	<u>3,493,580</u>	<u>12,895,466</u>	<u>14,550,516</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 42,031,079</u>	<u>\$ 8,101,221</u>	<u>\$ 22,116,575</u>	<u>\$ 72,248,875</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, 2014

Total Governmental Fund Balances		\$ 14,550,516
 <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.		175,521,598
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental	\$ 5,597,786	
Property Taxes	<u>9,265,930</u>	14,863,716
 An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		 (33,304)
 In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		 (124,886)
 In the statement of activities, a gain/loss on refunding is amortized over the term of the bonds, whereas in governmental funds a refunding gain/loss is reported when bonds are issued.		 1,826,711
 Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
QZAB Bonds	(2,100,000)	
General Obligation Bonds	(25,425,000)	
Energy Conservation Bonds	(6,728,636)	
Bond Premium	(2,179,627)	
Capital Lease Obligation	(328,788)	
Healthcare Termination Benefits	(2,854,175)	
Compensated Absences	<u>(4,423,364) *</u>	<u>(44,039,590)</u>
 <i>Net Position of Governmental Activities</i>		 <u><u>\$ 162,564,761</u></u>

* Excludes \$5,093 reported in the internal service funds.

See accompanying notes to the basic financial statements.

Canton City School District
Stark County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$ 23,416,418	\$ 3,507,697	\$ 877,273	\$ 27,801,388
Intergovernmental	82,266,012	859,860	17,318,689	100,444,561
Investment Income	144,671	(66,353)	37,446	115,764
Tuition and Fees	1,169,631	0	30,510	1,200,141
Extracurricular Activities	168,639	0	548,220	716,859
Rentals	484,516	0	0	484,516
Charges for Services	48,866	0	284,835	333,701
Contributions and Donations	42,682	0	58,545	101,227
Miscellaneous	447,257	0	29,397	476,654
<i>Total Revenues</i>	<u>108,188,692</u>	<u>4,301,204</u>	<u>19,184,915</u>	<u>131,674,811</u>
Expenditures				
Current:				
Instruction:				
Regular	40,895,179	0	1,044,353	41,939,532
Special	11,947,473	0	6,385,985	18,333,458
Vocational	2,527,866	0	36,824	2,564,690
Adult Education	932,201	0	497,074	1,429,275
Student Intervention Services	15,775,806	0	0	15,775,806
Other	27,990	0	0	27,990
Support Services:				
Pupils	6,511,946	0	713,077	7,225,023
Instructional Staff	1,642,368	0	3,738,404	5,380,772
Board of Education	21,825	0	0	21,825
Administration	10,603,600	0	792,647	11,396,247
Fiscal	1,677,947	77,183	178,448	1,933,578
Business	546,421	0	49,095	595,516
Operation and Maintenance of Plant	10,613,858	0	585,590	11,199,448
Pupil Transportation	3,457,967	0	460,938	3,918,905
Central	3,134,228	0	37,258	3,171,486
Extracurricular Activities	1,702,591	0	843,417	2,546,008
Operation of Non-Instructional Services:				
Food Service Operations	0	0	4,625,416	4,625,416
Community Services	1,174,797	0	393,806	1,568,603
Capital Outlay	33,802	0	551,689	585,491
Debt Service:				
Principal Retirement	0	14,571,582	18,074	14,589,656
Interest and Fiscal Charges	0	3,325,102	8,238	3,333,340
<i>Total Expenditures</i>	<u>113,227,865</u>	<u>17,973,867</u>	<u>20,960,333</u>	<u>152,162,065</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(5,039,173)</u>	<u>(13,672,663)</u>	<u>(1,775,418)</u>	<u>(20,487,254)</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	9,585	0	15,232	24,817
Transfers In	0	494,410	160,000	654,410
Transfers Out	(654,410)	0	0	(654,410)
<i>Total Other Financing Sources (Uses)</i>	<u>(644,825)</u>	<u>494,410</u>	<u>175,232</u>	<u>24,817</u>
<i>Net Change in Fund Balance</i>	(5,683,998)	(13,178,253)	(1,600,186)	(20,462,437)
<i>Fund Balances Beginning of Year</i>	<u>3,845,468</u>	<u>16,671,833</u>	<u>14,495,652</u>	<u>35,012,953</u>
<i>Fund Balances End of Year</i>	<u>\$ (1,838,530)</u>	<u>\$ 3,493,580</u>	<u>\$ 12,895,466</u>	<u>\$ 14,550,516</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, 2014*

Net Change in Fund Balances - Total Governmental Funds \$ (20,462,437)

*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 exceeded capital outlay in the current period.

Capital Asset Additions	\$ 4,537,678	
Current Year Depreciation	<u>(6,734,775)</u>	(2,197,097)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

(347,571)

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

Property Taxes	(69,258)	
Accrued Interest	(28,051)	
Intergovernmental	<u>4,476,561</u>	4,379,252

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

Bonds	14,571,582	
Bond Accreted Interest	1,733,418	
Capital Leases	<u>18,074</u>	16,323,074

In the statement of activities, interest is accrued on outstanding bonds, and bond premium and gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.

Accrued Interest Payable	40,332	
Amortization of Premium on Bonds	308,295	
Amortization of Refunding Loss	<u>(257,717)</u>	90,910

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

(180,762)

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

Compensated Absences	92,394 *	
Healthcare Termination Benefits	<u>1,100,832</u>	1,193,226

Accretion on capital appreciation bonds is an expenditure in the governmental funds, but is allocated as an expense over the life of the bonds in the statement of activities.

(206,213)

Change in Net Position of Governmental Activities \$ (1,407,618)

* Excludes an increase of \$5,193 reported in the internal service funds.

Canton City School District
Stark County, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Property and Other Local Taxes	\$ 22,282,933	\$ 21,061,939	\$ 23,514,814	\$ 2,452,875
Intergovernmental	77,403,929	73,162,577	81,683,097	8,520,520
Investment Income	142,365	134,564	150,235	15,671
Tuition and Fees	216,369	204,513	228,331	23,818
Rentals	442,583	418,332	467,051	48,719
Charges for Services	45,888	43,374	48,425	5,051
Contributions and Donations	2,890	2,732	3,050	318
Miscellaneous	701,757	663,305	740,553	77,248
<i>Total Revenues</i>	<u>101,238,714</u>	<u>95,691,336</u>	<u>106,835,556</u>	<u>11,144,220</u>
Expenditures				
Current:				
Instruction:				
Regular	39,784,850	40,491,098	40,466,170	24,928
Special	11,822,025	12,031,886	12,024,479	7,407
Vocational	2,948,670	3,001,014	2,999,166	1,848
Student Intervention Services	15,510,192	15,785,524	15,775,806	9,718
Other	7,086	7,211	7,207	4
Support Services:				
Pupils	6,397,786	6,511,358	6,507,349	4,009
Instructional Staff	1,558,405	1,586,069	1,585,093	976
Board of Education	27,931	28,427	28,409	18
Administration	10,031,948	10,210,032	10,203,746	6,286
Fiscal	1,684,601	1,714,506	1,713,450	1,056
Business	528,563	537,946	537,615	331
Operation and Maintenance of Plant	11,344,530	11,545,914	11,538,806	7,108
Pupil Transportation	3,524,501	3,587,067	3,584,859	2,208
Central	4,129,178	4,202,478	4,199,891	2,587
Extracurricular Activities	1,527,412	1,554,526	1,553,569	957
Operation of Non-Instructional Services:				
Community Services	905,561	921,636	921,069	567
Capital Outlay	33,233	33,823	33,802	21
<i>Total Expenditures</i>	<u>111,766,472</u>	<u>113,750,515</u>	<u>113,680,486</u>	<u>70,029</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(10,527,758)</u>	<u>(18,059,179)</u>	<u>(6,844,930)</u>	<u>11,214,249</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	9,083	8,585	9,585	1,000
Refund of Prior Year Expenditures	35,057	33,136	36,995	3,859
Refund of Prior Year Receipts	(147,379)	(149,995)	(149,903)	92
Transfers Out	(751,540)	(764,881)	(764,410)	471
<i>Total Other Financing Sources (Uses)</i>	<u>(854,779)</u>	<u>(873,155)</u>	<u>(867,733)</u>	<u>5,422</u>
<i>Net Change in Fund Balance</i>	(11,382,537)	(18,932,334)	(7,712,663)	11,219,671
<i>Fund Balance Beginning of Year</i>	11,871,513	11,871,513	11,871,513	0
Prior Year Encumbrances Appropriated	2,247,189	2,247,189	2,247,189	0
<i>Fund Balance End of Year</i>	<u>\$ 2,736,165</u>	<u>\$ (4,813,632)</u>	<u>\$ 6,406,039</u>	<u>\$ 11,219,671</u>

See accompanying notes to the basic financial statements.

Canton City School District
Stark County, Ohio
Statement of Fund Net Position
Proprietary Funds
June 30, 2014

	Governmental Activities - Internal Service Funds
<hr style="border-top: 3px double #000;"/>	
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Investments	\$ 308,986
Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	4,551
Intergovernmental Payable	149,858
Claims Payable	182,788
Compensated Absences Payable	948
<i>Total Current Liabilities</i>	338,145
<i>Long-Term Liabilities</i>	
Compensated Absences Payable - Net of Current Portion	4,145
<i>Total Liabilities</i>	342,290
Net Position	
Unrestricted	\$ (33,304)

See accompanying notes to the basic financial statements.

Canton City School District
Stark County, Ohio
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2014

	Governmental Activities - Internal Service Funds
Operating Revenues	
Charges for Services	\$ 459,873
Other	10,112
<i>Total Operating Revenues</i>	469,985
Operating Expenses	
Salaries and Wages	17,368
Fringe Benefits	251,475
Purchased Services	165,729
Materials and supplies	130,665
Claims	87,934
<i>Total Operating Expenses</i>	653,171
<i>Operating Loss</i>	(183,186)
Non-Operating Revenues	
Interest	2,424
<i>Change in Net Position</i>	(180,762)
<i>Net Position Beginning of Year</i>	147,458
<i>Net Position End of Year</i>	\$ (33,304)

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, 2014

	<u>Governmental Activities - Internal Service Funds</u>
Cash Flows From Operating Activities	
Cash Received from Customers	\$ 459,915
Other Cash Receipts	243,362
Cash Paid for Goods and Services	(317,355)
Cash Paid to Employees for Services and Benefits	(241,989)
Cash Paid for Claims	(259,939)
<i>Net Cash Used For Operating Activities</i>	<u>(116,006)</u>
 Cash Flows From Investing Activities	
Interest on Investments	<u>2,424</u>
 <i>Net Decrease in Cash and Investments</i>	(113,582)
 <i>Cash and Investments, Beginning of Year</i>	<u>422,568</u>
 <i>Cash and Investments, End of Year</i>	<u>\$ 308,986</u>
 Reconciliation of Operating Loss to Net Cash Used For Operating Activities	
Operating Loss	\$ (183,186)
Adjustments:	
Decrease in Assets:	
Accounts Receivable	42
Intergovernmental Receivable	233,250
Increase (Decrease) in Liabilities:	
Accounts Payable	(20,961)
Accrued Wages and Benefits	(2,223)
Intergovernmental Payable	23,984
Claims Payable	(172,005)
Compensated Absences Payable	5,093
<i>Total Adjustments</i>	<u>67,180</u>
<i>Net Cash Used For Operating Activities</i>	<u>\$ (116,006)</u>

See accompanying notes to the basic financial statements.

Canton City School District
Stark County, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Investments	\$ 114,580	\$ 221,006
Liabilities		
Accounts Payable	200	\$ 27,792
Due to Students	0	193,214
<i>Total Liabilities</i>	200	\$ 221,006
Net Position		
Held in Trust for Scholarships	\$ 114,380	

See accompanying notes to the basic financial statements.

Canton City School District
Stark County, Ohio
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2014

	Private Purpose Trust
Additions	
Gifts and Contributions	\$ 22,434
Investment Earnings	2,206
	24,640
<i>Total Additions</i>	<i>24,640</i>
Deductions	
Payments in Accordance with Trust Agreements	22,671
	22,671
<i>Change in Net Position</i>	<i>1,969</i>
<i>Net Position Beginning of Year</i>	<i>112,411</i>
<i>Net Position End of Year</i>	<i>\$ 114,380</i>

See accompanying notes to the basic financial statements.

Canton City School District
Stark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Canton City School District (the “School 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 School District operates under a locally elected five-member Board of Education and is responsible for the provision of public education to residents of the School District. The Board oversees the operations of the School District’s twenty-four instructional/support facilities.

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 School District. For the School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization’s Governing Board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization’s resources; or (3) the School 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 School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School 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 School District has no component units. The basic financial statements of the reporting entity include only those of the School District (the primary government).

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

JOINTLY GOVERNED ORGANIZATION

Canton Joint Recreation District - The School 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 School District. The CJRD hires and fires its own staff and does not rely on the School District to finance deficits. The School District is not financially accountable for the CJRD nor is the CJRD financially dependent upon the School 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.

Canton City School District
Stark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School 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 School District’s accounting policies are described below.

A. Fund Accounting

The School 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 of resources and liabilities and deferred inflows of resources is reported as fund balance.

The following are the School 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.

Other governmental funds of the School 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.

Canton City School District
Stark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Proprietary Fund Type Proprietary funds are used to account for the School 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 School District has no enterprise funds. The following is a description of the School 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 School District, or to other governments, on a cost-reimbursement basis. The internal service funds of the School District are used to account for workers' compensation and warehouse service programs.

Fiduciary Fund Type 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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School 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 School District's agency funds account for student activities and School District agency services.

B. Basis of Presentation

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the School 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.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School 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 School 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 School District.

Fund Financial Statements - Fund financial statements report detailed information about the School 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. Non-major funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

Canton City School District
Stark County, Ohio
Notes to the Basic Financial Statements
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The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and deferred outflows of resources, current liabilities and deferred inflows of resources, 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 deferred outflows of resources and all liabilities and deferred inflows of resources 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 School 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.

C. 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 School District, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the School 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 School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Canton City School District
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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

Property taxes for which there is an enforceable legal claim as of June 30, 2014, but which were levied to finance fiscal year 2015 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as deferred inflows of resources. 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, 2014, are recorded as deferred inflows of resources 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.

On the accrual basis of accounting, unamortized deferred charges on debt refunding are reported as a deferred outflow of resources. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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.

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.

D. 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 15th and the filing by January 20th. The Budget Commission now requires an alternate tax budget be submitted by January 20th, which no longer requires specific Board approval.

Canton City School District
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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 School 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 School 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 School 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.

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.

E. Cash and Investments

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

Canton City School District
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For the Fiscal Year Ended June 30, 2014

During fiscal year 2014, 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.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2014.

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 2014 amounted to \$144,671, which includes \$36,247 assigned from other School 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 School 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 School District's investment account at fiscal year-end is provided in Note 4.

F. 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 consumption method, which means that the cost of inventory items are recorded as expenditures in the governmental funds when consumed.

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.

G. 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 School District maintains a capitalization threshold of \$5,000 for its general capital assets.

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For the Fiscal Year Ended June 30, 2014

The School 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:

Description	Estimated Lives
Land Improvements	20 years
Building/Improvements	25 - 50 Years
Furniture/Equipment	5 - 20 Years
Vehicles	6 - 10 Years

H. Interfund Balances

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

I. Compensated Absences

Compensated absences of the School 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 School 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, 2014 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 "matured 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.

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J. 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.

K. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School 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 School District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the School 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 School 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 School District Board of Education. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

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.

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For the Fiscal Year Ended June 30, 2014

The School 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.

L. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. 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 School 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 School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

M. Parochial Schools

Within the School 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 School District, as directed by the parochial school. The fiduciary responsibility of the School District for these monies is reflected in a special revenue fund (a non-major governmental fund) for financial reporting purposes.

N. 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.

O. 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 for further detail on restricted assets related to QZAB sinking fund deposits maintained by the School District. Also see Note 10 for further detail on restricted assets related to the energy conservation bond sinking fund deposits with escrow agent.

Canton City School District
Stark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

P. Operating Revenues and Expenses

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

Q. Interfund Activity

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

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2014, the School District did not have extraordinary or special items.

S. Bond Premiums

Bond premiums are 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. On the governmental fund financial statements, bond premiums are recognized in the year of issuance.

T. Implementation of New Accounting Principle

For the fiscal year ended June 30, 2014, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB Statement No. 70 improves comparability of financial statements by requiring consistent reporting and specifying information required to be disclosed for extending and receiving nonexchange financial guarantees. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the School District.

Canton City School District
Stark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 3 - ACCOUNTABILITY

A. Fund Deficits

The following funds had a deficit fund balance as of June 30, 2014:

	Deficit
Major Fund:	
General	\$ 1,838,530
<i>Non-major Special Revenue Funds:</i>	
Public Preschool	42,640
Adult Basic Education	15,920
Race to the Top	5,913
IDEA Part B	383,224
Carl Perkins Grant	30,859
Title I	365,061
Title VI-R	24,795
Title VI-B	16,010

The general fund is liable for any deficits in the non-major 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 non-major governmental funds will be eliminated by future intergovernmental revenues not recognized under GAAP at June 30.

B. Non-Compliance

Contrary to Ohio Rev. Code 5705.39, the School District appropriations exceeded the amended official certificate of estimated resources at year-end for the following funds:

	Appropriations	Estimated Resources	Excess
Major Funds:			
General	\$ 112,418,202	\$ 107,604,570	\$ (4,813,632)
Debt Service	20,033,617	6,124,576	(13,909,041)
<i>Non-major Special Revenue Funds:</i>			
Food Service	4,600,000	3,309,473	(1,290,527)
IDEA Part B	2,450,000	2,378,696	(71,304)

The School District has modified its internal controls over this process to ensure compliance in future years.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School 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 School District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Canton City School District
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For the Fiscal Year Ended June 30, 2014

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) and STAR Plus;
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
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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 5 years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During fiscal year 2014, the School District and public depositories complied with the provisions of these statutes.

A. Cash and Investments with Escrow Agent

At fiscal year-end, \$1,345,726 was invested with an escrow agent for required sinking fund deposits relating to the School District's energy conservation bonds. These funds are not included in "deposits with financial institutions" or "investments" below.

B. Deposits with Financial Institutions

At June 30, 2014, the carrying amount of all School District deposits was \$4,052,460 exclusive of the \$4,130,000 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, 2014, \$3,624,887 of the School District's bank balance of \$4,139,967 was exposed to custodial risk as discussed below, while \$515,080 was covered by the FDIC.

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Canton City School District
Stark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

C. Investments

As of June 30, 2014, the School District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities				
		6 Months or Less	7 to 12 Months	13 to 18 Months	19 to 24 Months	More Than 24 Months
Federal Farm Credit						
Bank (FFCB) Notes	\$ 4,255,841	\$ 1,000,351	\$ 1,253,019	\$ 2,002,471	\$ 0	\$ 0
Federal National Mortgage Association (FNMA) Notes	1,043,335	0	500,855	0	0	542,480
Federal Home Loan Bank (FHLB) Notes	3,573,252	0	500,883	1,000,949	575,400	1,496,020
Federal Home Loan Mortgage (FHLM) Notes	2,502,710	0	0	501,675	999,835	1,001,200
U.S. Government Money Market	32,797	32,797	0	0	0	0
U.S Treasury notes	1,498,439	1,000,470	0	0	0	497,969
Repurchase Agreements	4,130,000	4,130,000	0	0	0	0
STAR Ohio	5,603,404	5,603,404	0	0	0	0
Total Investments	<u>\$ 22,639,778</u>	<u>\$ 11,767,022</u>	<u>\$ 2,254,757</u>	<u>\$ 3,505,095</u>	<u>\$ 1,575,235</u>	<u>\$ 3,537,669</u>

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the School 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 School District has no investment policy dealing with investment custodial risk beyond the requirement in the State statute that prohibits payment for the investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

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 School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within one year from the date of purchase and that the School District's investment portfolio be structured so that the securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk The federal agency securities, federal agency securities underlying the School 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. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2014, is 51 days and carries a rating of AAAM by Standard and Poor's. The School District has no investment policy dealing with investment credit risk beyond the requirements in state statutes.

Canton City School District
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Concentration of Credit Risk The School District places no limit on the amount the School District may invest in any one issuer. The following table includes the percentage to total of each investment type held by the School District at June 30, 2014:

Investment Type	Fair Value	Percent of Total
Federal Farm Credit		
Bank (FFCB) Notes	\$ 4,255,841	19%
Federal National Mortgage		
Association (FNMA) Notes	1,043,335	4%
Federal Home Loan Bank (FHLB) Notes	3,573,252	16%
Federal Home Loan Mortgage		
(FHLM) Notes	2,502,710	11%
U. S. Treasury Notes	1,498,439	7%
U.S. Government Money Market	32,797	0%
Repurchase Agreements	4,130,000	18%
STAR Ohio	5,603,404	25%
	<hr/>	
Total	\$ 22,639,778	100%

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund Balances

Interfund balances at June 30, 2014 consist of a \$447,359 payable from the other governmental funds to the general fund. The primary purpose of the interfund balance is to cover costs in the fund where revenues were not received by June 30. This interfund balance will be repaid once the anticipated revenues are received. These advances are expected to be repaid within one year. Interfund loans between governmental activities are eliminated on the statement of net position.

B. Interfund Transfers

During the fiscal year, the general fund transferred \$160,000 to the athletic fund to provide additional resources for current operations and \$494,410 to the debt service fund for the payment of debt. Interfund transfers between governmental funds are eliminated in the statement of activities.

NOTE 6 - PROPERTY TAXES

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

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For the Fiscal Year Ended June 30, 2014

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Real property taxes received in calendar year 2014 were levied after April 1, 2013, on the assessed value listed as of January 1, 2013, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. 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 revenue received in calendar year 2014 represents collections of calendar year 2013 taxes. Public utility real and tangible personal property taxes received in calendar year 2014 became a lien December 31, 2012, were levied after April 1, 2013 and are collected in 2014 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Stark County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2014, are available to finance fiscal year 2014 operations. The amount available as an advance at June 30, 2014 was \$1,061,542 in the general fund, \$158,773 in the debt service fund, and \$44,362 in the permanent improvement fund, a non-major governmental fund. This amount is recorded as revenue. The amount available for advance at June 30, 2013 was \$1,159,938 in the general fund, \$120,477 in the debt service fund, and \$128,531 in the permanent improvement fund, a non-major 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, 2014 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 of resources.

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 of resources.

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Notes to the Basic Financial Statements
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The assessed values upon which the fiscal year 2014 taxes were collected are:

	2013 Second- Half Collections		2014 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$ 506,272,870	92%	\$ 499,116,480	91%
Public Utility Personal Property	46,409,620	8%	50,456,930	9%
Total	\$ 552,682,490	100%	\$ 549,573,410	100%
Full Tax Rate per \$1,000 of assessed valuation	\$ 77.90		\$ 77.90	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2014 consisted of property taxes, interfund 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 fiscal year guarantee of Federal funds. All receivables, except property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

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Canton City School District
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance 6/30/2013	Additions	Reductions	Balance 06/30/2014
Governmental Activities				
<i>Capital Assets, not Being Depreciated</i>				
Land	\$ 17,412,670	\$ 0	\$ (6,284)	\$ 17,406,386
Construction in Progress	1,022,099	720,997	(1,535,158)	207,938
	<u>18,434,769</u>	<u>720,997</u>	<u>(1,541,442)</u>	<u>17,614,324</u>
 <i>Capital Assets, Being Depreciated</i>				
Land Improvements	7,147,291	66,596	(13,695)	7,200,192
Building/Improvements	216,545,737	1,958,922	(662,602)	217,842,057
Furniture/Equipment	13,002,924	2,681,511	0	15,684,435
Vehicles	4,903,708	644,810	0	5,548,518
	<u>241,599,660</u>	<u>5,351,839</u>	<u>(676,297)</u>	<u>246,275,202</u>
 <i>Total Capital Assets, Being Depreciated</i>				
Less: Accumulated Depreciation				
Land Improvements	(3,831,504)	(290,084)	7,535	(4,114,053)
Building/Improvements	(63,707,904)	(4,992,958)	327,475	(68,373,387)
Furniture/Equipment	(10,330,571)	(1,220,108)	0	(11,550,679)
Vehicles	(4,098,184)	(231,625)	0	(4,329,809)
	<u>(81,968,163)</u>	<u>(6,734,775) *</u>	<u>335,010</u>	<u>(88,367,928)</u>
 <i>Total Accumulated Depreciation</i>				
 <i>Total Capital Assets Being Depreciated, Net</i>				
	<u>159,631,497</u>	<u>(1,382,936)</u>	<u>(341,287)</u>	<u>157,907,274</u>
 <i>Governmental Activities Capital Assets, Net</i>				
	<u>\$178,066,266</u>	<u>\$ (661,939)</u>	<u>\$ (1,882,729)</u>	<u>\$ 175,521,598</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 3,028,347
Special	685,180
Support Services:	
Pupil	217,107
Instructional Staff	362,678
Administration	455,721
Operation and Maintenance of Plant	750,202
Pupil Transportation	67,372
Operation of Non-Instructional Services	
Food Service Operations	433,731
Community Services	279,290
Extracurricular Activities	455,147
	<u>6,734,775</u>
 <i>Total Depreciation</i>	
	<u>\$ 6,734,775</u>

Canton City School District
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior fiscal years, the School District entered into capital lease agreements 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.

Governmental activities capital assets consisting of stadium scoreboard and stadium improvements have been capitalized in the amount of \$850,000. 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 2014 fiscal year totaled \$18,074 and \$8,238, respectively. These amounts are reported as debt service payments of the permanent improvement fund (a non-major governmental fund) and the Wells/Fawcett Stadium Trust Fund (a non-major governmental fund).

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2014 follows:

			Governmental Activities	
			Capital Lease	
Fiscal year ending June 30,	2015	\$	78,935	
	2016		52,623	
	2017		52,623	
	2018		52,623	
	2019		52,623	
	2020-2021		105,246	
Minimum lease payments			394,673	
Less: amount representing interest at the School's incremental borrowing rate of interest			65,885	
Present value of net minimum lease payments		\$	328,788	

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Canton City School District
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 10 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during the year consist of the following:

	Outstanding 6/30/2013	Additions	Reductions	Outstanding 6/30/2014	Amounts Due in One Year
Governmental Activities:					
<i>General Obligation Bonds</i>					
Current Interest - 2013	\$ 14,585,000	\$ 0	\$ (235,000)	\$ 14,350,000	\$ 5,000
Unamortized Bond Premium	1,788,619	0	(241,162)	1,547,457	0
Current Interest - 2005	11,075,000	0	0	11,075,000	2,070,000
Unamortized Bond Premium	699,303	0	(67,133)	632,170	0
Capital Appreciation	336,582	0	(336,582)	0	0
Accreted Interest	1,527,205	206,213	(1,733,418)	0	0
QZAB's	16,100,000	0	(14,000,000)	2,100,000	0
<i>Total General Obligation Bonds</i>	<u>46,111,709</u>	<u>206,213</u>	<u>(16,613,295)</u>	<u>29,704,627</u>	<u>2,075,000</u>
<i>Energy Conservation Bonds</i>	6,728,636	0	0	6,728,636	0
Healthcare Reimbursement Arrangement Payable	3,955,007	0	(1,100,832)	2,854,175	655,065
Capital Leases Payable	346,862	0	(18,074)	328,788	56,837
Compensated Absences	5,222,242	80,143	(873,928)	4,428,457	1,181,022
<i>Total Governmental Activities</i>					
<i>Long-Term Liabilities</i>	<u>\$ 62,364,456</u>	<u>\$ 286,356</u>	<u>\$ (18,606,129)</u>	<u>\$ 44,044,683</u>	<u>\$ 3,967,924</u>

Compensated absences will be paid from the fund from which the employee is paid which, for the School District, is primarily the general fund and the food service fund (a non-major governmental fund). The healthcare reimbursement arrangement payable will be paid from the general fund.

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

Series 2005 General Obligation Refunding Bonds On April 5, 2005, the School District issued Series 2005 general obligation refunding bonds to advance refund \$28,325,961 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 \$27,855,961, and capital appreciation bonds, par value \$470,000. The average interest rate on the current interest bonds is 4.10 percent. The remaining capital appreciation bond matured on December 1, 2013 (approximate initial offering yield to maturity 4.15 percent) at a redemption price equal to 100 percent of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bond that was paid in fiscal year 2014 was \$2,070,000.

Canton City School District
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Notes to the Basic Financial Statements
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On May 8, 2013, the School District issued \$14,585,000 (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 summary of the future debt service requirements to maturity for the Series 2005 general obligation refunding bonds:

Fiscal Year	Series 2005 Current Interest Bonds		
	Principal	Interest	Total
2015	\$ 2,070,000	\$ 502,000	\$ 2,572,000
2016	0	450,250	450,250
2017	0	450,250	450,250
2018	0	450,250	450,250
2019	0	450,250	450,250
2020-2024	9,005,000	1,590,625	10,595,625
	\$ 11,075,000	\$ 3,893,625	\$ 14,968,625

Series 2013 General Obligation Refunding Bonds On May 8, 2013, the School District issued Series 2013 general obligation refunding bonds to advance refund \$14,600,000 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 \$14,600,000 at June 30, 2014.

The refunding issue is comprised of current interest bonds, par value \$14,585,000. The average interest rate on the current interest bonds is 5.00 percent.

The reacquisition price exceeded the net carrying amount of the old debt by \$1,517,000. 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.

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The following is a summary of the future debt service requirements to maturity for the Series 2013 general obligation refunding bonds:

Series 2013 Current Interest Bonds			
Fiscal Year	Principal	Interest	Total
2015	\$ 5,000	\$ 621,247	\$ 626,247
2016	2,145,000	574,700	2,719,700
2017	2,235,000	479,872	2,714,872
2018	2,335,000	380,932	2,715,932
2019	2,440,000	277,552	2,717,552
2020-2021	5,190,000	227,109	5,417,109
	\$ 14,350,000	\$ 2,561,412	\$ 16,911,412

Series 2001 Qualified Zone Academy Bonds During the fiscal year 2001, the School 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 \$14,000,000 and one of QZAB Series 2001 bonds in the amount of \$2,100,000. The QZAB Series 2000 bonds matured on November 29, 2013 and the QZAB Series 2001 will mature on November 30, 2015. The School 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):

December 1 of year	QZAB Series 2001
2001	\$ 140,000
2002	140,000
2003	140,000
2004	140,000
2005	140,000
2006	140,000
2007	140,000
2008	140,000
2009	140,000
2010	140,000
2011	140,000
2012	140,000
2013	140,000
2014	140,000
2015	140,000
	\$ 2,100,000

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The QZAB Series 2001 bonds require stated annual interest payments. During fiscal year 2014, the School District made a sinking fund deposit of \$140,000. Since inception, a total of \$1,902,678 in sinking fund deposits have been made by the School District to retire the QZAB at maturity. These deposits are maintained by the School District until maturity of the QZAB in fiscal year 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 \$1,902,678 are reported as a restricted asset since the condition underlying the restriction will not be met in the short or medium term.

Energy Conservation Bonds On December 14, 2010, the School District issued \$6,728,636 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 School District's buildings. These bonds bear an annual interest rate of 5.43 percent, mature on December 1, 2025 and will be paid from the debt service fund. The School 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):

December 1 of year	Amount Due	Amount Deposited
2011	\$ 448,576	\$ 448,576
2012	448,575	448,575
2013	448,575	448,575
2014	448,575	0
2015	448,575	0
2016	448,576	0
2017	448,576	0
2018	448,576	0
2019	448,576	0
2020	448,576	0
2021	448,576	0
2022	448,576	0
2023	448,576	0
2024	448,576	0
2025	448,576	0
	<u>\$ 6,728,636</u>	<u>\$ 1,345,726</u>

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

The School District receives a reimbursement from the United States Treasury equal to 100 percent 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 School District records this reimbursement as federal intergovernmental revenue in the debt service fund.

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The following is a summary of future debt service requirements to maturity for the energy conservation bonds:

December 1 of year	Energy Conservation Bond		
	Principal	Interest	Total
2015	\$ 0	\$ 365,365	\$ 365,365
2016	0	365,365	365,365
2017	0	365,365	365,365
2018	0	365,365	365,365
2019	0	365,365	365,365
2020-2024	0	1,826,825	1,826,825
2025-2026	6,728,636	548,047	7,276,683
	<u>\$ 6,728,636</u>	<u>\$ 4,201,697</u>	<u>\$ 10,930,333</u>

Retirement Incentive Program and Health Care Reimbursement Arrangement The School 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 School 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 School 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, 2014 was \$2,854,175 of which \$655,065 is expected to become due within one year. A total of 197 employees have retired under the HRA as of June 30, 2014. The total HRA liability was calculated based upon required payments under the HRA for each applicable employee.

Legal Debt Margin The Ohio Revised Code provides that voted net general obligation debt of the School District shall never exceed 9 percent of the total assessed valuation of the School District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the School District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1 percent of the property valuation of the School District. The assessed valuation used in determining the School 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 School 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, 2014 are a voted debt margin of \$25,430,457 (including available funds of \$3,493,580) and an unvoted debt margin of \$549,576.

Canton City School District
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Notes to the Basic Financial Statements
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NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The School 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 percent coinsured. The School District has obtained coverage from commercial insurance carriers. The following is a description of the School District's insurance coverage:

Coverage	Limits of Coverage	Deductible
General Liability:		
Each occurrence	\$ 1,000,000	\$ 0
Aggregate	2,000,000	0
Building and contents	426,789,223	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 2013.

B. Shared Risk Pool

The School 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 School 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 School 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 School District to pay only administrative charges to the Bureau, and in turn, the School 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 School District will be charged an actuarial amount for the claims transferred to the Bureau. The School District's stop-loss coverage through the plan is limited to \$300,000 per claim stop-loss coverage with an annual aggregate.

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The School 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:

		Balance at Beginning of Year		Claims		Payments		Balance at End of Year
2013	\$	304,788	\$	50,005	\$	0	\$	354,793
2014	\$	354,793	\$	87,934	\$	259,939	\$	182,788

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 School District contributes to the School Employees Retirement System of Ohio (“SERS”), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS’ website at www.ohsers.org under Employers/Audit Resources.

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Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and .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 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 School District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$2,655,726, \$1,869,097 and \$1,805,000, respectively; 72 percent has been contributed for fiscal year 2014 and 100 percent for the fiscal years 2013 and 2012.

B. State Teachers Retirement System

Plan Description - The School 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 publicly-available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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 of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Canton City School District
Stark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Funding Policy - For fiscal year 2014, plan members were required to contribute 11 percent of their annual covered salaries. The School 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 11 percent for members and 14 percent for employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$7,710,635, \$7,026,323 and \$7,085,000, respectively; 84 percent has been contributed for fiscal year 2014 and 100 percent for the fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$267,626 made by the School District and \$210,277 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2014, certain members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System 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 plan 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 Ohio Revised Code Section 3309.69. 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 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. 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 SERS' website at 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, 2014

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 fiscal year 2014, 0.14 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 2014, the actuarially determined amount was \$20,250.

Active members do not contribute to the postemployment benefit plans. The SERS 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. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013, and 2012 were \$274,728, \$237,593, and \$295,000, respectively; 72 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2014, the actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$144,168, \$105,583, and \$107,000, respectively; 72 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

B. State Teachers Retirement System

Plan Description - The School 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 financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (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 fiscal year 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$550,760, \$540,486, and \$545,000, respectively; 84 percent has been contributed for fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

Canton City School District
Stark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While the School District is 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, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non GAAP Basis) and Actual - 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 GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed or assigned fund balance (GAAP basis).
4. Some funds are included in the general fund (GAAP), but have separate legally adopted budgets.

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:

Net Change in Fund Balance

GAAP Basis	\$ (5,683,998)
Net Adjustment for Revenue Accruals	235,909
Net Adjustment for Expenditure Accruals	233,208
Funds Budgeted Elsewhere**	(73,788)
Adjustment for Encumbrances	<u>(2,423,994)</u>
Budget Basis	<u>\$ (7,712,663)</u>

** As part of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, 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, rotary, adult education, recreation and public school support funds.

NOTE 16 - SET-ASIDES

The School 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.

Canton City School District
Stark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

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.

	Capital Improvements
Set-aside Restricted Balance as of June 30, 2013	\$ 0
Current Year Set-aside Requirement	1,568,034
Current Year Offsets	(1,093,453)
Prior Year Offset from Bond Proceeds	(474,581)
Totals	\$ 0
Balance Carried Forward to Fiscal Year 2015	\$ 0
Set-aside Restricted Balance as of June 30, 2014	\$ 0

During fiscal year 2001, the School District issued \$46,705,413 in capital related school improvement bonds. During fiscal year 2011, the School District issued \$6,728,636 in capital related energy conservation bonds. These proceeds may be used to reduce the capital improvements set-aside to zero for future years. The School District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$40,448,812 at June 30, 2014.

NOTE 17 – CONTINGENCIES AND COMMITMENTS

A. Grants

The School 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 School District at June 30, 2014.

B. Litigation

The School District is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and spending projects. The School 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 School District.

Canton City School District
Stark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

C. Encumbrances

The School 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 fiscal year-end, the School District's commitments for encumbrances in the governmental funds were as follows:

Fund	Amount
General	\$ 1,777,639
Nonmajor Governmental	2,749,402
	\$ 4,527,041

NOTE 18 - FISCAL CAUTION

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

NOTE 19 - FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School 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:

	General	Debt Service Fund	Other Governmental Funds	Total
Nonspendable for:				
Materials and Supplies Inventory	\$ 107,633	\$ 0	\$ 26,382	\$ 134,015
Restricted for:				
Debt Service	0	3,493,580	0	3,493,580
Capital Outlay	0	0	5,306,175	5,306,175
Facilities Maintenance	0	0	2,613,302	2,613,302
Food Service Operations	0	0	4,376,555	4,376,555
Other Purposes	0	0	1,457,474	1,457,474
Total Restricted	0	3,493,580	13,753,506	17,247,086
Unassigned	(1,946,163)	0	(884,422)	(2,830,585)
Total Fund Balance (Deficit)	\$ (1,838,530)	\$ 3,493,580	\$ 12,895,466	\$ 14,550,516

NOTE 20 - SUBSEQUENT EVENT

On August 11, 2014, the Board has passed a resolution authorizing the School District to lease 15 new 72 passenger buses in the amount of \$1,358,760. Payments will be made over a 4-year term.

December 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 the Canton City School District, Stark County, Ohio (the "School District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 31, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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 School District's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2014-002.

The School District's Response to Findings

The School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School 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 School District'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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hea & Associates, Inc.

New Philadelphia, Ohio

December 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 the Canton City School District's, Stark County, Ohio (the "School 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 School District's major federal programs for the year ended June 30, 2014. The School 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 School 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 School 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 School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the School 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, 2014.

Report on Internal Control Over Compliance

Management of the School 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 School 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 School 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 - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Federal Grantor/ Sub Grantor/ Program Title	Federal CFDA Number	Grant Year	Receipts	Expenditures
<u>U.S. Department of Education</u>				
(Direct)				
Impact Aid	84.041	2014	\$19,542	\$2,982
Student Financial Assistance Cluster:				
Federal Pell Grant Program	84.063	2014	445,865	445,865
Federal Direct Student Loans	84.268	2014	<u>612,754</u>	<u>612,754</u>
<i>Total Student Financial Assistance Cluster</i>			1,058,619	1,058,619
(Passed through the Ohio Department of Education)				
Adult Education - Basic Grants to States	84.002	2013	59,626	77,638
		2014	518,621	501,043
		2014	<u>44,228</u>	<u>50,671</u>
<i>Total Adult Education - Basic Grants to States</i>			622,475	629,352
Title I Grants to Local Educational Agencies	84.010	2013	2,324,397	1,916,630
		2014	5,012,569	5,229,716
Title I School Improvement		2013	133,403	92,764
		2014	218,817	309,985
Title I-D		2013	5,543	5,479
		2014	<u>989</u>	<u>535</u>
<i>Total Title I Grants to Local Educational Agencies</i>			7,695,718	7,555,109
Special Education Cluster:				
Special Education Grants to States	84.027	2013	133,347	340,347
		2014	2,035,131	1,938,141
Parent Mentor Grant		2013	6,008	6,192
		2014	<u>25,000</u>	<u>25,000</u>
<i>Total Special Education Grants to States</i>			2,199,486	2,309,680
Special Education Preschool Grants	84.173	2013	23,214	30,291
		2014	<u>90,351</u>	<u>86,531</u>
<i>Total Special Education Preschool Grants</i>			<u>113,565</u>	<u>116,822</u>
<i>Total Special Education Cluster</i>			2,313,051	2,426,502

CONTINUED

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Federal Grantor/ Sub Grantor/ Program Title	Federal CFDA Number	Grant Year	Receipts	Expenditures
Career and Technical Education - Basic Grants to States	84.048	2013	\$155,889	\$84,211
		2014	<u>315,602</u>	<u>302,333</u>
<i>Total Career and Technical Education - Basic Grants to States</i>			471,491	386,544
Education for Homeless Children and Youth	84.196	2013	78,085	47,976
		2014	<u>68,528</u>	<u>70,763</u>
<i>Total Education for Homeless Children and Youth</i>			146,613	118,739
Twenty-First Century Community Learning Centers	84.287	2013	38,904	13,334
		2014	<u>62,476</u>	<u>60,996</u>
<i>Total Twenty-First Century Community Learning Centers</i>			101,380	74,330
Improving Teacher Quality State Grants	84.367	2013	263,677	163,178
		2014	<u>1,000,230</u>	<u>1,073,179</u>
<i>Total Improving Teacher Quality State Grants</i>			1,263,907	1,236,357
ARRA - Race-to-the Top Incentive Grants, Recovery Act OPAPP	84.395	2012	259,313	174,600
		2014	<u>25,810</u>	<u>51,117</u>
<i>Total Race-to-the Top</i>			285,123	225,717
(Passed through the National Council for Community and Education Partnership)				
English Language Acquisition State Grants	84.365	2013	3,997	850
		2014	<u>1,543</u>	<u>10,097</u>
<i>Total English Language Acquisition State Grants</i>			<u>5,540</u>	<u>10,947</u>
Total U.S. Department of Education			<u>13,983,459</u>	<u>13,725,198</u>

CONTINUED

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Federal Grantor/ Sub Grantor/ Program Title	Federal CFDA Number	Grant Year	Receipts	Expenditures
U.S. Department of Agriculture				
(Passed through the Ohio Department of Education)				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution)				
National School Lunch Program	10.555	2014	\$323,072	\$323,072
Cash Assistance				
School Breakfast Program	10.553	2014	1,020,516	1,020,516
National School Lunch Program	10.555	2014	<u>3,175,609</u>	<u>3,175,609</u>
<i>Total Child Nutrition Cluster</i>			<u>4,519,197</u>	<u>4,519,197</u>
Total U.S. Department of Agriculture			<u>4,519,197</u>	<u>4,519,197</u>
U.S. Department of Labor				
(Passed through Service Delivery Area No. 23)				
Workforce Investment Act Youth Activities	17.259	2014	<u>63,162</u>	<u>63,162</u>
Total U.S. Department of Labor			<u>63,162</u>	<u>63,162</u>
Total			<u><u>\$18,565,818</u></u>	<u><u>\$18,307,557</u></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, 2014*

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 "School 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 is commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

Note C - Food Donation Program

Program regulations do not require the School 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 School District participates in the William D. Ford Federal Direct Loan Program. The School District originates the loans which are then funded through the U.S. Department of Education.

Federal Subsidized Loans	\$279,429
Federal Unsubsidized Loans	331,409
Federal Plus Loans	<u>1,916</u>
Total Federal Direct Student Loans	<u>\$612,754</u>

Note E - Transfers

The School 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 school district can transfer unspent Federal assistance to the succeeding year, thus allowing the School District a total of 27 months to spend the assistance. For the fiscal year 2014 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	2014	\$ 547,824	
84.010	Title I	2015		\$ 547,824
84.365	LEP, Title III	2014	2,616	
84.365	LEP, Title III	2015		2,616
84.367	Title II-A	2014	134,727	
84.367	Title II-A	2015		134,727

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

*Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2014*

Note F - Workers' Compensation Rebate

Ohio's workers' compensation system serves as an insurance program for both employers and employees alike. For those who contribute premiums, the Ohio Bureau of Workers' Compensation (the "BWC") covers the payment of compensation and medical costs related to industrial accidents and diseases. The BWC invested contributions over a three-year period which generated a greater than anticipated return. In May 2013, the Ohio BWC Board of Directors authorized a \$1 billion rebate for more than 210,000 public and private entities paying into Ohio's workers' compensation system. Each employer's rebate reflected 56% of what they were billed during the last policy period (2011 calendar year for public-taxing districts). Approximately \$113 million of the \$1 billion rebate went to local governments around the state. Using policy year 2011 as the base year for calculation, the School District allocated its BWC rebate back to all funds, including Federal funds, providing the source of initial premium payments to BWC. The subsequent expenditure of the rebate attributable to Federal programs is reflected on the School District's Schedule.

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, 2014

1. SUMMARY OF AUDITOR'S RESULTS

(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)?	No
(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)?	Yes
(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): Title I Grants to Local Educational Agencies Special Education Cluster: Special Education Grants to States Special Education Preschool Grants	CFDA #84.010 #84.027 #84.173
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$549,227 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, 2014

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

Significant Deficiency - Capital Assets

Finding Number: 2014-001

Criteria: Management is responsible for internal controls over financial reporting of capital assets and depreciation expenses.

Condition: While performing audit procedures regarding capital assets, we noted the School 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. We identified expenditures in the general ledger during fiscal year 2014 that should have been reported as a capital asset addition but were not.

Cause: There are insufficient policies and internal controls over capital asset reporting. Management has not implemented a sufficient process to identify potential purchases requiring capitalization during the purchase order process. Management has not implemented a process to reconcile capital outlay expense accounts to capital asset additions to identify potential purchases requiring capitalization. There has been no recent physical inventory inspection performed by management.

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. The lack of control over reporting capital asset additions, transfers and disposals increases the likelihood of misstatements to the financial statements. A combination of these factors resulted in unrecorded immaterial differences to the financial statements, individually and in the aggregate.

Recommendation: We recommend the School District re-evaluate current asset useful lives in order to determine if the assigned useful life is reasonable. We further recommend the School District update the School District's capital asset policy to include details regarding the School District's depreciation practices and the requirement of periodic 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 policy should require the School District to record information such as the fund and function purchasing the capital asset to the capital asset accounting system to allow depreciation to be calculated for each capital asset. The School District should ensure that when a capital asset is moved from one location to another that the capital asset system is updated to assist with a physical inventory inspection and also ensure depreciation is recorded to the correct expense function. The School District should implement policies and procedures to ensure all purchases requiring capitalization are identified and recorded as additions to the capital asset system and all capital asset additions and disposals are communicated to the GAAP compilation team.

Management's Response: The School District's capital asset policies and procedures will be updated by management to reflect the recommendations noted in the fiscal year 2014 audit. In addition, the procedures surrounding the maintenance of the School 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, 2014

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

Material Non-Compliance – Appropriations Exceeded Estimated Resources

Finding Number: 2014-002

Criteria: Ohio Rev. Code Section 5705.39 states that total appropriations from each fund shall not exceed the total of the estimated resources available for expenditure therefrom.

Condition: The School District’s appropriations exceeded the amended official certificate of estimated resources at year-end for the following funds:

<u>Fund</u>	<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Excess</u>
General (001)	\$ 112,418,202	\$ 107,604,570	(\$ 4,813,632)
IDEA Part B (516)	2,450,000	2,378,696	(71,304)
Food Service (006)	4,600,000	3,309,473	(1,290,527)
Debt Service (002)	20,033,617	6,124,576	(13,909,041)

Cause: The School District amended the estimated receipts on June 16, 2014 to reduce the estimated receipts by significant amounts; however, the spreadsheet used to review for budgetary non-compliance had an error in the method used to calculate the estimated resources. The error included the beginning unencumbered cash twice in the calculation of estimated resources. The spreadsheet error caused the Treasurer to fail to identify the non-compliance the amendment would cause.

Effect: The School District was not in compliance with Ohio Rev. Code Section 5705.39 as appropriations exceeded estimated resources in several funds.

Recommendation: We recommend management ensure all budgetary compliance calculations are accurate prior to supplementing appropriations and certifying amended certificates of estimated resources.

Management’s Response: Management no longer uses the spreadsheet template that caused this error.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

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, 2014

Finding Number	Finding Summary	Fully Corrected?	Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain
2013-001	Material Weakness – Internal Controls Over Financial Reporting	No	Partially Corrected: Monitoring controls over journal entries repeated as management letter comment.
2013-002	Significant Deficiency – Capital Assets	No	Repeated as finding 2014-001
2013-003	Significant Deficiency – Health Care Reimbursement Annual Reports	Yes	Corrected



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
MAY 7, 2015**