



Dave Yost • Auditor of State

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Canton City School District
Stark County
1312 5th Street SW
Canton, Ohio 44707

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Canton City School District, Stark County, Ohio (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Canton City School District, Stark County, Ohio, as of June 30, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

As described in Note 19 to the financial statements, the District was placed in fiscal caution by the Ohio Department of Education on March 22, 2007. The note also discloses management's plan to alleviate this condition. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential 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 other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 6, 2013

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The management's discussion and analysis of Canton City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- In total, net assets of the governmental activities decreased \$1.358 million from a balance of \$169.399 million at June 30, 2011 to \$168.041 million at June 30, 2012.
- General revenues accounted for \$98.335 million in revenue or 76.31% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$30.525 million or 23.69% of total revenues of \$128.860 million.
- The District had \$130.218 million in expenses related to governmental activities; only \$30.525 million of these expenses were offset by program specific charges for services or grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$98.335 million were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$102.512 million in revenues and \$100.695 million in expenditures and other financing uses. The general fund's fund balance increased \$2.185 million from a balance of \$2.909 million to a balance of \$5.094 million.
- The debt service fund had \$3.775 million in revenues and other financing sources and \$3.070 million in expenditures. The debt service fund's fund balance increased \$705,000 from \$13.773 million to \$14.478 million.

Using the Basic Financial Statements (BFS)

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Reporting the District as a Whole

Statement of net assets and the statement of activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The District's statement of net assets and statement of activities can be found on pages 14-15 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds are reconciled in the financial statements. The basic governmental fund financial statements can be found on pages 16-21 of this report.

Proprietary Funds

The District maintains three proprietary funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service funds account for Bureau of Workers' Compensation (BWC) payments, warehouse activity and computer network activity. The basic proprietary fund financial statements can be found on pages 22-24 of this report.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 25 and 26. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 27-62 of this report.

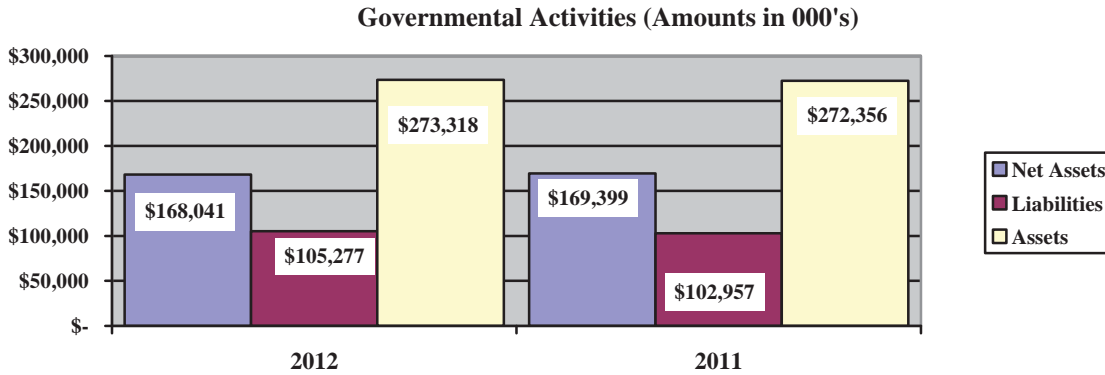
The District as a Whole

The statement of net assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2012 and 2011.

	Net Assets (Amounts in 000's)	
	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current assets	\$ 77,568	\$ 74,785
Restricted assets	13,933	12,827
Capital assets, net	<u>181,817</u>	<u>184,744</u>
Total assets	<u>273,318</u>	<u>272,356</u>
<u>Liabilities</u>		
Current liabilities	43,988	39,146
Long-term liabilities	<u>61,289</u>	<u>63,811</u>
Total liabilities	<u>105,277</u>	<u>102,957</u>
<u>Net Assets</u>		
Invested in capital assets, net of debt	134,307	137,329
Restricted	29,287	31,815
Unrestricted	<u>4,447</u>	<u>255</u>
Total net assets	<u>\$ 168,041</u>	<u>\$ 169,399</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)



Net assets decreased \$1.358 million or 0.80%, mainly due to the end of Federal Stimulus grants after fiscal year 2011.

At year end, capital assets represented 66.52% of total assets. Capital assets include land, land improvements, buildings and building improvements, furniture, fixtures and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$134.307 million. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$29.287 million, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$4.447 million may be used to meet the District's ongoing obligations to the students and creditors.

The table below shows the changes in net assets for governmental activities for fiscal year 2012 compared to fiscal year 2011.

Change in Net Assets (Amounts in 000's)

	Governmental Activities	
	2012	2011
Revenues		
Program revenues:		
Charges for services and sales	\$ 3,147	\$ 3,681
Operating grants and contributions	27,358	37,715
Capital grants and contributions	20	55
General revenues:		
Property taxes	26,036	26,838
Grants and entitlements	71,390	68,572
Investment earnings	415	541
Decrease in fair market value of investments	(286)	(212)
Other	780	1,089
Total revenues	128,860	138,279

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 43,133	\$ 46,483
Special	16,777	18,721
Vocational	2,323	2,233
Adult/continuing	1,529	1,704
Other	12,145	11,638
Support services:		
Pupil	6,998	7,643
Instructional staff	7,431	7,716
Board of education	35	35
Administration	8,778	8,440
Fiscal	1,801	1,560
Business	491	550
Operations and maintenance	10,858	10,876
Pupil transportation	3,487	3,360
Central	3,478	3,009
Operation of non-instructional services:		
Food service operations	4,113	4,354
Other non-instructional services	2,081	1,824
Extracurricular activities	2,664	2,726
Interest and fiscal charges	<u>2,096</u>	<u>1,915</u>
Total expenses	<u>130,218</u>	<u>134,787</u>
Changes in net assets	(1,358)	3,492
Net assets at beginning of year	<u>169,399</u>	<u>165,907</u>
Net assets at end of year	<u>\$ 168,041</u>	<u>\$ 169,399</u>

Governmental Activities

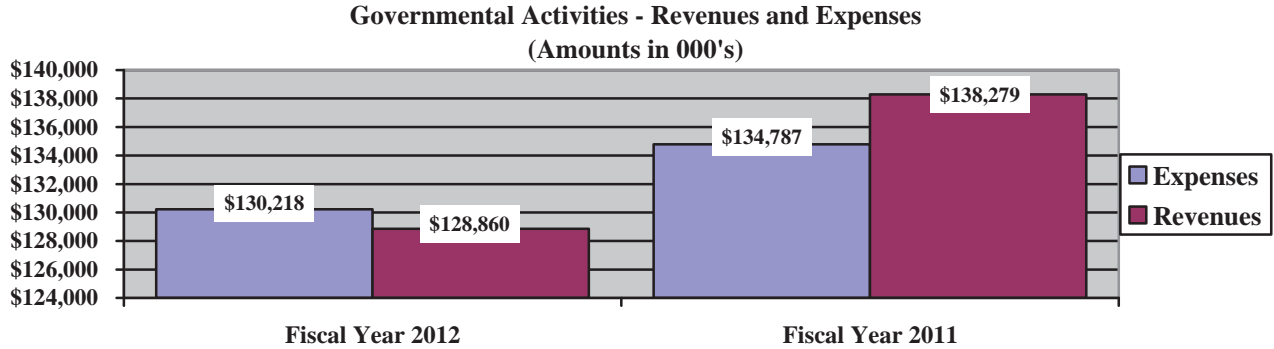
The net assets of the District's governmental activities decreased \$1.358 million. Total governmental expenses of \$130.218 million were offset by program revenues of \$30.525 million and general revenues of \$98.335 million. Program revenues supported 23.44% of the total governmental expenses. The decrease in governmental activities net assets is primarily due to decreased operating grant revenues during the fiscal year. The decrease in expenses is due to cuts made to instructional staffing. The District experienced an overall decrease in operating grants and contributions in 2012 due to the end of Federal Stimulus grants after fiscal year 2011. Tax revenue also decreased due to the decrease in the amount available with the county auditor at fiscal year end.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These two revenue sources represent 75.61% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2012 and 2011.



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2012 and 2011. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities (Amounts in 000's)

	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>
Program expenses:				
Instruction:				
Regular	\$ 43,133	\$ 41,980	\$ 46,483	\$ 35,847
Special	16,777	4,867	18,721	5,968
Vocational	2,323	1,353	2,233	1,319
Adult/continuing	1,529	(483)	1,704	(395)
Other	12,145	12,145	11,638	11,638
Support services:				
Pupil	6,998	5,857	7,643	6,288
Instructional staff	7,431	2,544	7,716	2,034
Board of Education	35	35	35	35
Administration	8,778	8,035	8,440	7,807
Fiscal	1,801	1,330	1,560	1,265
Business	491	491	550	550
Operations and maintenance	10,858	10,730	10,876	10,289
Pupil transportation	3,487	2,403	3,360	2,768
Central	3,478	3,440	3,009	2,713
Operation of non-instructional services:				
Food service operations	4,113	(732)	4,354	(256)
Other non-instructional services	2,081	1,460	1,824	1,405
Extracurricular activities	2,664	2,142	2,726	2,146
Interest and fiscal charges	2,096	2,096	1,915	1,915
Total expenses	\$ 130,218	\$ 99,693	\$ 134,787	\$ 93,336

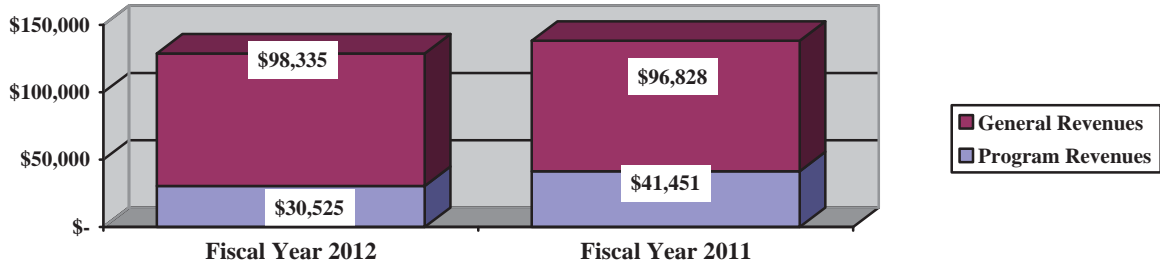
**CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The dependence upon general revenues during fiscal year 2012 for governmental activities is apparent, as 78.86% of 2012 instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 76.56% in 2012. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio, as a whole, are the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2012 and 2011.

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



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 16) reported a combined fund balance of \$36.515 million, which is greater than last year's total of \$32.279 million. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011 (amounts in 000's).

	Fund Balance <u>June 30, 2012</u>	Fund Balance <u>June 30, 2011</u>	<u>Increase</u>
General	\$ 5,094	\$ 2,909	\$ 2,185
Debt service	14,478	13,773	705
Other governmental	16,943	15,597	1,346
Total	<u>\$ 36,515</u>	<u>\$ 32,279</u>	<u>\$ 4,236</u>

General Fund

The District's general fund balance increased \$2.185 million. The table below assists in illustrating the financial activities and fund balance of the general fund (amounts in 000's).

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<u>Revenues</u>				
Taxes	\$ 21,159	\$ 23,238	\$ (2,079)	(8.95) %
Interest earnings	376	496	(120)	(24.19) %
Intergovernmental	78,490	76,191	2,299	3.02 %
Other revenues	2,487	3,818	(1,331)	(34.86) %
Total	<u>\$ 102,512</u>	<u>\$ 103,743</u>	<u>\$ (1,231)</u>	<u>(1.19) %</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>				
Instruction	\$ 63,132	\$ 63,459	\$ (327)	(0.52) %
Support services	33,548	33,017	531	1.61 %
Operation of non-instructional services	942	830	112	13.49 %
Extracurricular activities	1,457	1,750	(293)	(16.74) %
Facilities acquisition and construction	78	396	(318)	(80.30) %
Debt service	147	147	-	- %
Total	<u>\$ 99,304</u>	<u>\$ 99,599</u>	<u>\$ (295)</u>	(0.30) %

The decrease in tax revenue is due primarily to the amount of tax advances available held by the county auditor at the end of the fiscal year. Intergovernmental revenue increased slightly due to more revenue from the State Foundation Program. The other significant decrease was in other revenues, which saw a decrease of \$1.331 million. This was primarily due to a one time refund received in fiscal year 2011 from the Stark County Auditor for property taxes paid on District owned property.

Instruction expenditures decreased 0.52% and support services expenditures increased 1.61% from the prior year. These two areas are the District's largest expenditure line items. The overall decrease in expenditures is 0.30%.

Debt Service Fund

The District's debt service fund balance increased by \$705,000. The table below assists in illustrating the financial activities and fund balance of the debt service fund (amounts in 000's).

	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 2,286	\$ 2,500	\$ (214)	(8.56) %
Interest earnings	17	-	17	100.00 %
Decrease in fair market value of investments	(286)	(212)	(74)	(34.91) %
Intergovernmental	724	503	221	43.94 %
Other	-	5	(5)	(100.00) %
Total	<u>\$ 2,741</u>	<u>\$ 2,796</u>	<u>\$ (55)</u>	(1.97) %
<u>Expenditures</u>				
Support services	\$ 58	\$ 48	\$ 10	20.83 %
Debt service:				
Principal retirement	1,350	1,295	55	4.25 %
Interest and fiscal charges	1,662	1,519	143	9.41 %
Total	<u>\$ 3,070</u>	<u>\$ 2,862</u>	<u>\$ 208</u>	7.27 %

The increase in fund balance resulted from transfers in during 2012 from the general fund for payment of principal and interest on long-term notes payable.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

General Fund Budgeting Highlights

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

During the course of fiscal year 2012, the District amended its general fund budget numerous times. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. For the general fund, final budgeted revenues and other financing sources were \$100.682 million. This amount is an increase from the original budgeted revenues and other financing sources of \$98.708 million. The actual revenues and other financing sources were \$102.856 million, which was \$2.174 million greater than the final budget revenues. The primary variances between the final budgeted revenues and actual revenues were in the area of taxes and intergovernmental-state revenues. General fund original appropriations and other financing uses of \$110.338 million were decreased to \$105.176 million in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2012 totaled \$103.196 million which was \$1.980 million less than final budgeted appropriations. The variance between final budgeted appropriations and actual budget basis expenditures can be attributed to the District's aggressive cost control policies.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the District had \$181.817 million invested in land, land improvements, buildings and building improvements, furniture, fixtures and equipment, vehicles and construction in progress. The following table shows fiscal year 2012 balances compared to 2011:

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

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Land	\$ 17,413	\$ 17,413
Construction in progress	465	4,881
Land improvements	3,601	3,886
Buildings and building improvements	157,543	155,358
Furniture, fixtures and equipment	1,859	2,475
Vehicles	936	731
Total	\$ 181,817	\$ 184,744

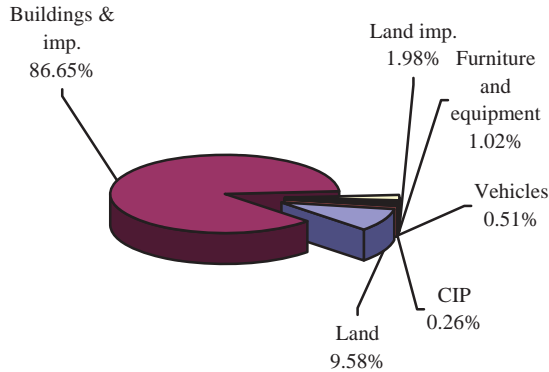
Total additions for 2012 were \$3.137 million. Depreciation expense for fiscal year 2012 was \$6.064 million. Overall, capital assets of the District decreased \$2.927 million.

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

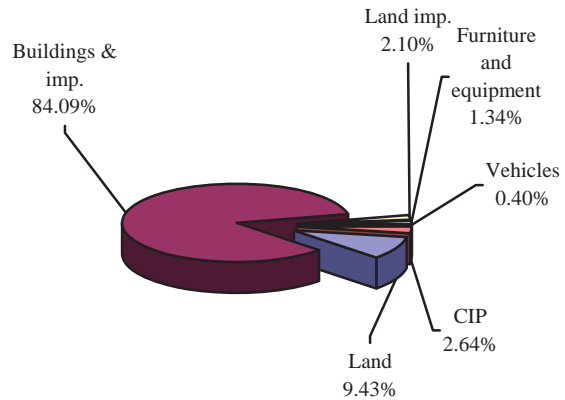
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

The following graphs show the breakdown of the governmental activities capital assets by category for 2012 and 2011.

Capital Assets - 2012



Capital Assets - 2011



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

Debt Administration

At June 30, 2012, the District had \$51.797 million in general obligation bonds, energy conservation bonds, notes and capital lease obligations outstanding. Of this total, \$1.435 million is due within one year and \$50.362 million is due in greater than one year.

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

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

	Balance <u>June 30, 2012</u>	Balance <u>June 30, 2011</u>
General obligation bonds	\$ 43,885	\$ 44,135
Notes payable	730	1,430
Energy conservation bonds	6,729	6,729
Capital lease obligation	<u>453</u>	<u>673</u>
Total	<u>\$ 51,797</u>	<u>\$ 52,967</u>

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Current Financial Related Activities

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

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

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

The District's voters approved a 7.9 mill property tax levy in November 2011. This levy is expected to generate approximately \$5 million per year. These funds will replace some federal and state funding, which is expected to be cut over the next several years.

Contacting the District's Financial Management

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

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

STATEMENT OF NET ASSETS
JUNE 30, 2012
(AMOUNTS IN 000's)

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	\$ 34,458
Receivables:	
Taxes	38,736
Accounts	29
Intergovernmental	3,321
Accrued interest	89
Prepayments	57
Unamortized bond and note issue costs	345
Materials and supplies inventory	533
Restricted assets:	
Equity in pooled cash and investments	13,485
Cash with fiscal agent	448
Capital assets:	
Land and construction in progress	17,878
Depreciable capital assets, net	163,939
Total capital assets, net	<u>181,817</u>
Total assets	<u>273,318</u>
 Liabilities:	
Accounts payable	1,539
Contracts payable	253
Accrued wages and benefits	9,435
Pension obligation payable	2,462
Intergovernmental payable	534
Unearned revenue	29,329
Accrued interest payable	131
Claims payable	305
Long-term liabilities:	
Due within one year	2,847
Due in more than one year	58,442
Total liabilities	<u>105,277</u>
 Net assets:	
Invested in capital assets, net	
of related debt	134,307
Restricted for:	
Capital projects	6,080
Debt service	14,979
Classroom facilities maintenance	2,601
Locally funded programs	798
State funded programs	116
Federally funded programs	689
Food service operations	3,461
Student activities	17
Other purposes	546
Unrestricted	4,447
Total net assets	<u>\$ 168,041</u>

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(AMOUNTS IN 000's)

	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental activities:						
Instruction:						
Regular	\$ 43,133	\$ 264	\$ 889	\$ -	\$ (41,980)	
Special	16,777	258	11,652	-	(4,867)	
Vocational	2,323	37	933	-	(1,353)	
Adult/continuing	1,529	974	1,038	-	483	
Other	12,145	-	-	-	(12,145)	
Support services:						
Pupil.	6,998	182	959	-	(5,857)	
Instructional staff	7,431	-	4,887	-	(2,544)	
Board of education	35	-	-	-	(35)	
Administration.	8,778	97	646	-	(8,035)	
Fiscal.	1,801	246	225	-	(1,330)	
Business.	491	-	-	-	(491)	
Operations and maintenance	10,858	105	3	20	(10,730)	
Pupil transportation.	3,487	62	1,022	-	(2,403)	
Central	3,478	-	38	-	(3,440)	
Operation of non-instructional services:						
Food service operations.	4,113	381	4,464	-	732	
Other non-instructional services.	2,081	37	584	-	(1,460)	
Extracurricular activities.	2,664	504	18	-	(2,142)	
Interest and fiscal charges	2,096	-	-	-	(2,096)	
Totals	\$ 130,218	\$ 3,147	\$ 27,358	\$ 20	(99,693)	

General revenues:

General purposes	22,744
Debt service.	2,417
Capital outlay.	451
Facilities maintenance.	424
Grants and entitlements not restricted to specific programs	71,390
Investment earnings	415
Decrease in fair market value of investments.	(286)
Miscellaneous	780
Total general revenues	98,335
Change in net assets	(1,358)
Net assets at beginning of year	169,399
Net assets at end of year.	\$ 168,041

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012
(AMOUNTS IN 000's)

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and investments	\$ 16,151	\$ 346	\$ 17,389	\$ 33,886
Receivables:				
Taxes	33,849	3,508	1,379	38,736
Accounts	25	-	4	29
Intergovernmental	595	-	2,726	3,321
Accrued interest	89	-	-	89
Interfund loans	-	28	-	28
Due from other funds	145	-	-	145
Prepayments	56	-	1	57
Materials and supplies inventory	489	-	44	533
Restricted assets:				
Equity in pooled cash and cash equivalents	-	13,485	-	13,485
Cash with fiscal agent	-	448	-	448
Total assets	\$ 51,399	\$ 17,815	\$ 21,543	\$ 90,757
Liabilities:				
Accounts payable	\$ 992	\$ -	\$ 487	\$ 1,479
Contracts payable	-	-	253	253
Accrued wages and benefits	7,796	-	1,638	9,434
Compensated absences payable	356	-	81	437
Pension obligation payable	2,069	-	392	2,461
Intergovernmental payable	186	-	18	204
Interfund loan payable	-	-	28	28
Health care reimbursement arrangement payable	2,270	-	-	2,270
Due to other funds	-	-	145	145
Deferred revenue	6,980	632	591	8,203
Unearned revenue	25,656	2,705	967	29,328
Total liabilities	46,305	3,337	4,600	54,242
Fund balances:				
Nonspendable:				
Materials and supplies inventory	489	-	44	533
Prepayments	56	-	1	57
Restricted:				
Debt service	-	14,478	-	14,478
Capital improvements	-	-	8,286	8,286
Classroom facilities maintenance	-	-	2,601	2,601
Food service operations	-	-	3,538	3,538
Non-public schools	-	-	81	81
Targeted academic assistance	-	-	821	821
Extracurricular activities	-	-	572	572
Other purposes	-	-	1,068	1,068
Assigned:				
Student instruction	2,160	-	-	2,160
Student and staff support	707	-	-	707
Adult education	786	-	-	786
Extracurricular activities	4	-	-	4
Facilities acquisition and construction	29	-	-	29
Other purposes	98	-	-	98
Unassigned (deficit)	765	-	(69)	696
Total fund balances	5,094	14,478	16,943	36,515
Total liabilities and fund balances	\$ 51,399	\$ 17,815	\$ 21,543	\$ 90,757

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012
(AMOUNTS IN 000's)

Total governmental fund balances		\$	36,515
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			181,817
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes receivable	\$	7,529	
Accrued interest receivable		43	
Intergovernmental revenue receivable		631	
Total		631	8,203
Unamortized deferred charges on refundings are not recognized in the funds.			1,415
Unamortized premiums on bond and note issuances are not recognized in the funds.			(1,657)
Unamortized bond and note issuance costs are not recognized in the funds.			345
Internal service funds are used by management to charge the costs of workers' compensation and warehouse services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities on the statement of net assets.			(126)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(131)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(43,885)	
Energy conservation bonds		(6,729)	
Compensated absences		(4,812)	
Capital lease obligations		(453)	
Health care reimbursement arrangement payable		(1,731)	
Notes payable		(730)	
Total		(58,340)	(58,340)
Net assets of governmental activities		\$	168,041

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, 2012
(AMOUNTS IN 000's)

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes.	\$ 21,159	\$ 2,286	\$ 851	\$ 24,296
Tuition.	1,362	-	12	1,374
Earnings on investments.	376	17	49	442
Decrease in fair market value of investments	-	(286)	-	(286)
Charges for services.	-	-	381	381
Extracurricular.	244	-	544	788
Classroom materials and fees	56	-	4	60
Other local revenues.	825	-	621	1,446
Intergovernmental - Intermediate	-	-	37	37
Intergovernmental - State.	78,069	371	1,545	79,985
Intergovernmental - Federal	421	353	24,244	25,018
Total revenue	<u>102,512</u>	<u>2,741</u>	<u>28,288</u>	<u>133,541</u>
Expenditures:				
Current:				
Instruction:				
Regular	36,846	-	4,480	41,326
Special.	10,957	-	5,147	16,104
Vocational.	2,262	-	74	2,336
Adult/continuing	910	-	619	1,529
Other	12,157	-	-	12,157
Support services:				
Pupil.	5,880	-	984	6,864
Instructional staff	1,960	-	5,090	7,050
Board of education	35	-	-	35
Administration.	7,681	-	661	8,342
Fiscal	1,486	58	264	1,808
Business	469	-	24	493
Operations and maintenance.	9,783	-	1,019	10,802
Pupil transportation	2,902	-	1,119	4,021
Central.	3,352	-	20	3,372
Operation of non-instructional services:				
Food service operations.	-	-	4,097	4,097
Other non-instructional services.	942	-	503	1,445
Extracurricular activities.	1,457	-	766	2,223
Facilities acquisition and construction	78	-	2,315	2,393
Debt service:				
Principal retirement	142	1,350	78	1,570
Interest and fiscal charges	5	1,662	26	1,693
Total expenditures	<u>99,304</u>	<u>3,070</u>	<u>27,286</u>	<u>129,660</u>
Excess/(deficiency) of revenues over/ (under) expenditures	<u>3,208</u>	<u>(329)</u>	<u>1,002</u>	<u>3,881</u>

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(AMOUNTS IN 000's)

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses):				
Transfers in	-	1,034	357	1,391
Transfers (out).	(1,391)	-	-	(1,391)
Total other financing sources (uses)	<u>(1,391)</u>	<u>1,034</u>	<u>357</u>	<u>-</u>
Net change in fund balances	1,817	705	1,359	3,881
Fund balances at beginning of year	2,909	13,773	15,597	32,279
Increase (decrease) in reserve for inventory	<u>368</u>	<u>-</u>	<u>(13)</u>	<u>355</u>
Fund balances at end of year	<u>\$ 5,094</u>	<u>\$ 14,478</u>	<u>\$ 16,943</u>	<u>\$ 36,515</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, 2012
(AMOUNTS IN 000's)

Net change in fund balances - total governmental funds	\$	3,881
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.		
Capital asset additions	\$ 3,137	
Current year depreciation	(6,064)	
Total		(2,927)
Governmental funds report expenditures for inventory when purchased, however, in the statement of activities, they are reported as expenses when consumed.		
		355
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Delinquent property taxes	1,741	
Interest	(5)	
Intergovernmental	(6,459)	
Total		(4,723)
Repayment of long-term principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. The following principal payments were made in the fiscal year:		
Bonds and notes	1,350	
Capital lease obligations	220	
Total		1,570
In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in increased interest being reported on the statement of activities:		
Decrease in accrued interest payable	4	
Accreted interest on "capital appreciation" bonds	(400)	
Amortization of bond and note issuance costs	(37)	
Amortization on bond and note premiums	154	
Amortization of deferred charge on refunding	(124)	
Total		(403)
Some expenses reported in the statement of activities, such as the long-term portion of compensated absences and the health reimbursement arrangement payable do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		1,595
The internal service funds used by management to charge the costs of workers' compensation, a computer network and warehouse services to individual funds are not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net losses of the internal service funds are allocated among the governmental activities.		
		(706)
Change in net assets of governmental activities	\$	(1,358)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(AMOUNTS IN 000's)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes.	\$ 21,271	\$ 21,697	\$ 22,165	\$ 468
Tuition.	204	208	213	5
Earnings on investments.	392	400	408	8
Other local revenues.	628	641	655	14
Intergovernmental - State	74,559	76,049	77,691	1,642
Intergovernmental - Federal.	437	445	455	10
Total revenue	<u>97,491</u>	<u>99,440</u>	<u>101,587</u>	<u>2,147</u>
Expenditures:				
Current:				
Instruction:				
Regular	40,703	38,798	38,068	730
Special.	11,679	11,133	10,923	210
Vocational.	2,651	2,527	2,480	47
Other.	14,079	13,420	13,167	253
Support services:				
Pupil.	6,303	6,009	5,895	114
Instructional staff	1,985	1,892	1,857	35
Board of education	32	30	30	-
Administration.	8,033	7,657	7,513	144
Fiscal	1,590	1,516	1,487	29
Business	508	484	475	9
Operations and maintenance.	11,235	10,710	10,508	202
Pupil transportation	3,164	3,015	2,959	56
Central.	4,039	3,850	3,777	73
Operation of non-instructional services	901	859	843	16
Extracurricular activities.	1,622	1,546	1,517	29
Facilities acquisition and construction.	176	168	164	4
Total expenditures	<u>108,700</u>	<u>103,614</u>	<u>101,663</u>	<u>1,951</u>
Excess of expenditures over revenues.	<u>(11,209)</u>	<u>(4,174)</u>	<u>(76)</u>	<u>4,098</u>
Other financing sources (uses):				
Refund of prior year expenditure.	1,194	1,218	1,245	27
Refund of prior year receipt	(194)	(185)	(182)	3
Transfers (out)	(1,444)	(1,377)	(1,351)	26
Sale of capital assets	23	24	24	-
Total other financing sources (uses)	<u>(421)</u>	<u>(320)</u>	<u>(264)</u>	<u>56</u>
Net change in fund balance	(11,630)	(4,494)	(340)	4,154
Fund balance at beginning of year	9,279	9,279	9,279	-
Prior year encumbrances appropriated	2,483	2,483	2,483	-
Fund balance at end of year.	<u>\$ 132</u>	<u>\$ 7,268</u>	<u>\$ 11,422</u>	<u>\$ 4,154</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012
(AMOUNTS IN 000's)

	Governmental Activities - Internal Service Funds
Assets:	
Current assets:	
Equity in pooled cash and investments.	\$ 572
	572
Total assets	572
Liabilities:	
Accounts payable.	60
Accrued wages and benefits	1
Pension obligation payable.	1
Intergovernmental payable	330
Unearned revenue	1
Claims payable	305
	698
Total liabilities	698
Net assets:	
Unrestricted (deficit).	(126)
	(126)
Total net assets (deficit)	\$ (126)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(AMOUNTS IN 000's)

		Governmental Activities - Internal Service Funds
Operating revenues:		
Charges for services and fees.	\$	166
Other		6
		<hr/>
Total operating revenues		172
		<hr/>
Operating expenses:		
Personal services.		252
Purchased services.		131
Materials and supplies		135
Claims		402
		<hr/>
Total operating expenses.		920
		<hr/>
Operating loss		(748)
		<hr/>
Nonoperating revenues:		
Interest revenue		4
Grants and subsidies.		38
		<hr/>
Total nonoperating revenues		42
		<hr/>
Change in net assets.		(706)
		<hr/>
Net assets at beginning of year		580
		<hr/>
Net assets (deficit) at end of year.	\$	(126)
		<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(AMOUNTS IN 000's)

		Governmental Activities - Internal Service Funds
<hr/>		
Cash flows from operating activities:		
Cash received from charges for services and fees . . .	\$	166
Cash received from other operations		6
Cash payments for personal services.		(493)
Cash payments for purchased services		(76)
Cash payments for materials and supplies		(135)
Cash payments for claims		(332)
<hr/>		
Net cash used in operating activities		(864)
<hr/>		
Cash flows from noncapital financing activities:		
Cash received from grants and subsidies.		39
Cash used in repayment of interfund loans.		(6)
<hr/>		
Net cash provided by noncapital financing activities.		33
<hr/>		
Cash flows from investing activities:		
Interest received		4
<hr/>		
Net cash provided by investing activities		4
<hr/>		
Net decrease in cash and cash equivalents		(827)
<hr/>		
Cash and cash equivalents at beginning of year . . .		1,399
Cash and cash equivalents at end of year	\$	572
<hr/> <hr/>		
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$	(748)
 Changes in assets and liabilities:		
Increase in accounts payable		56
Decrease in accrued wages and benefits		(1)
Decrease in intergovernmental payable		(241)
Increase in claims payable.		70
<hr/>		
Net cash used in operating activities	\$	(864)
<hr/> <hr/>		

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012
(AMOUNTS IN 000's)

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$ 99	\$ 250
Total assets	99	\$ 250
Liabilities:		
Accounts payable	-	\$ 3
Due to students	-	247
Unearned revenue.	1	-
Total liabilities	1	\$ 250
Net assets:		
Held in trust for scholarships.	98	
Total net assets.	\$ 98	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(AMOUNTS IN 000's)

	Private-Purpose Trust	
	Scholarship	
Additions:		
Interest	\$	2
Gifts and contributions.		30
		32
Total additions.		32
Deductions:		
Scholarships awarded		35
		35
Change in net assets		(3)
Net assets at beginning of year.		101
Net assets at end of year	\$	98

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, 2012**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District employs 531 non-certified and 857 certified employees to provide services to approximately 9,946 students and community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

JOINTLY GOVERNED ORGANIZATIONS

Canton Joint Recreation District

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

PUBLIC ENTITY RISK POOL

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

The following are the District's major governmental funds:

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

PROPRIETARY FUNDS

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

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

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

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

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

D. Basis of Accounting

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

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

**CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2012 are recorded as deferred revenue in the governmental funds.

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

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

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

**CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

E. Budgets

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

Tax Budget:

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

Estimated Resources:

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

Appropriations:

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

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

**CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. 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 reappropriated.

F. Cash and Investments

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

During fiscal year 2012, 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 nonnegotiable certificates of deposit and repurchase agreements, are reported at cost.

The District had invested funds in STAR Ohio during fiscal year 2012. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2012.

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 2012 amounted to \$376,000 which includes \$163,000 assigned from other District funds.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expended/expensed when used. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

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

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

H. Capital Assets

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

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

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

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". Short-term interfund loans used to cover negative cash balances in funds are classified as "due to/from other funds". These amounts are eliminated in the governmental activities column of the statement of net assets.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

J. Compensated Absences

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

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2012 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

L. Fund Balance

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

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

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

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

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

M. Net Assets

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

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

N. Prepayments

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

O. Parochial Schools

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

P. Estimates

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

Q. Restricted Assets

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

R. Operating Revenues and Expenses

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

S. Interfund Activity

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

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2012, the District did not have extraordinary or special items.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2012 included the following individual fund deficits (amounts in 000's):

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Public school preschool	\$ 25
School improvement stimulus A	25
Preschool grant for handicapped	19
 <u>Internal service fund:</u>	
Workers' compensation	156

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

A. Cash with Fiscal Agent

At fiscal year end, \$448,000 was on deposit with an escrow agent for required sinking fund deposits relating to the District's energy conservation bonds. These funds are not included in "deposits with financial institutions" below.

B. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits was \$3.717 million exclusive of the \$9.265 million repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$295,000 of the District's bank balance of \$4.098 million was exposed to custodial risk as discussed below, while \$3.803 million was covered by the FDIC.

**CANTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

C. Investments

As of June 30, 2012, the District had the following investments and maturities (amounts in 000's):

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
FHLB	\$ 3,002	\$ 1,003	\$ 500	\$ -	\$ -	\$ 1,499
FFCB	3,900	500	-	1,000	650	1,750
FHLMC	2,503	-	502	500	1,501	-
FNMA	4,801	501	-	753	-	3,547
U.S. Treasury Notes	13,485	3,670	1,166	7,646	-	1,003
STAR Ohio	7,597	7,597	-	-	-	-
U.S. Government money market Repurchase agreement	22	22	-	-	-	-
	9,265	9,265	-	-	-	-
	<u>\$ 44,575</u>	<u>\$ 22,558</u>	<u>\$ 2,168</u>	<u>\$ 9,899</u>	<u>\$ 2,151</u>	<u>\$ 7,799</u>

The weighted average maturity of investments is 0.92 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less. The District's investment policy limits investment in commercial paper to maturities of 180 days or less from the date of purchase. The District did not have investments in commercial paper at June 30, 2012.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. treasury notes and federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. Of the District's \$9.265 million investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The District's investment policy places limits on the amount that may be invested in any one issuer. Investments in federal agency securities may not exceed 70% of the District's portfolio at time of purchase. In addition, no more than 25% of investments in federal agency securities may be in callable agency securities. Investments in commercial paper may not exceed 25% of the District's portfolio at time of purchase. The following table includes the percentage of each investment type held by the District at June 30, 2012 (amounts in 000's):

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 3,002	6.73
FFCB	3,900	8.75
FHLMC	2,503	5.61
FNMA	4,801	10.77
U.S. Treasury Notes	13,485	30.25
STAR Ohio	7,597	17.04
U.S. Government money market	22	0.05
Repurchase agreement	<u>9,265</u>	<u>20.80</u>
	<u>\$ 44,575</u>	<u>100.00</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012 (amounts in 000's):

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,717
Cash with fiscal agent	448
Investments	<u>44,575</u>
Total	<u>\$ 48,740</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 48,391
Private-purpose trust fund	99
Agency funds	<u>250</u>
Total	<u>\$ 48,740</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances consisted of the following due to/from other funds at June 30, 2012, as reported on the fund statements (amounts in 000's):

	<u>Amount</u>
<u>Due to the general fund from:</u>	
Nonmajor governmental funds	\$ 145

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund loans receivable/payable consisted of the following at June 30, 2012, as reported on the fund statements (amounts in 000's):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Debt service fund	Nonmajor governmental funds	\$ 28

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund loans receivable/payable between governmental funds is eliminated for reporting on the statement of net assets.

- C.** Interfund transfers for the year ended June 30, 2012 consisted of the following, as reported on the fund statements (amounts in 000's):

	<u>Amount</u>
Transfers from general fund to:	
Debt service fund	\$ 1,034
Nonmajor governmental funds	<u>357</u>
Total	<u>\$ 1,391</u>

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

During fiscal year 2012, the District made \$1.034 million in transfers from the general fund to the debt service fund related to long-term note principal and interest expenditures.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Stark County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$1.709 million in the general fund, \$171,000 in the debt service fund, and \$92,000 in the permanent improvement fund, a nonmajor governmental fund. This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$2.716 million in the general fund, \$291,000 in the debt service fund, and \$175,000 in the permanent improvement fund, a nonmajor governmental fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2012 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2012 taxes were collected are (amounts in 000's):

	2011 Second Half Collections		2012 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 657,482	93.92	\$ 651,928	93.57
Public utility personal	<u>42,584</u>	<u>6.08</u>	<u>44,810</u>	<u>6.43</u>
Total	<u>\$ 700,066</u>	<u>100.00</u>	<u>\$ 696,738</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 60.10		\$ 68.00	
Debt service	3.50		4.10	
Permanent improvement	2.50		2.50	
Classroom maintenance	0.60		0.60	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2012 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. Principal items of receivables reported on the statement of net assets follows (amounts in 000's):

Governmental activities:

Taxes	\$ 38,736
Accounts	29
Intergovernmental	3,321
Accrued interest	<u>89</u>
Total governmental activities	<u>\$ 42,175</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows (amounts in 000's):

	Balance <u>June 30, 2011</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2012</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 17,413	\$ -	\$ -	\$ 17,413
Construction in progress	<u>4,881</u>	<u>2,198</u>	<u>(6,614)</u>	<u>465</u>
Total capital assets, not being depreciated	<u>22,294</u>	<u>2,198</u>	<u>(6,614)</u>	<u>17,878</u>
Capital assets, being depreciated:				
Land improvements	7,147	-	-	7,147
Building/improvements	209,162	7,069	-	216,231
Furniture/equipment	10,890	86	(35)	10,941
Vehicles	<u>4,971</u>	<u>398</u>	<u>(285)</u>	<u>5,084</u>
Total capital assets, being depreciated	<u>232,170</u>	<u>7,553</u>	<u>(320)</u>	<u>239,403</u>
Less: accumulated depreciation				
Land improvements	(3,261)	(285)	-	(3,546)
Building/improvements	(53,804)	(4,884)	-	(58,688)
Furniture/equipment	(8,415)	(702)	35	(9,082)
Vehicles	<u>(4,240)</u>	<u>(193)</u>	<u>285</u>	<u>(4,148)</u>
Total accumulated depreciation	<u>(69,720)</u>	<u>(6,064)</u>	<u>320</u>	<u>(75,464)</u>
Governmental activities capital assets, net	<u>\$ 184,744</u>	<u>\$ 3,687</u>	<u>\$ (6,614)</u>	<u>\$ 181,817</u>

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

Instruction:	
Regular	\$ 2,795
Special	656
Support services:	
Pupil	182
Instructional staff	313
Administration	390
Operations and maintenance of plant	491
Pupil transportation	161
Operation of non-instructional services	624
Food service operations	33
Extracurricular activities	<u>419</u>
Total depreciation expense	<u>\$ 6,064</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

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

Governmental activities capital assets consisting of copier equipment, stadium scoreboard and stadium improvements have been capitalized in the amount of \$1.701 million. This amount represents the present value of the future minimum lease payments at the time of acquisition. A corresponding liability is recorded on the statement of net assets. Principal and interest payments in the 2012 fiscal year totaled \$220,000 and \$28,000, respectively. These amounts are reported as debt service payments of the general fund, the permanent improvement fund (a nonmajor governmental fund) and the Wells/Fawcett Stadium Trust Fund (a nonmajor governmental fund).

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2012 follows (amounts in 000's):

<u>Year Ending June 30</u>	<u>Amount</u>
2013	\$ 128
2014	53
2015	53
2016	52
2017	52
2018 - 2021	<u>211</u>
Total minimum lease payment	549
Less: amount representing interest	<u>(96)</u>
Present value of minimum lease payments	<u>\$ 453</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. Series 2000 General Obligation Bonds

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

B. Series 2005 General Obligation Refunding Bonds

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

The refunding issue is comprised of both current interest bonds, par value \$27.855 million, and capital appreciation bonds, par value \$470,000. The average interest rate on the current interest bonds is 4.10%. The capital appreciation bonds mature December 1, 2012 and December 1, 2013 (approximate initial offering yield to maturity 4.00% and 4.15%, respectively) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$2.735 million. Total accreted interest of \$1.640 million has been included on the statement of net assets at June 30, 2012.

The reacquisition price exceeded the net carrying amount of the old debt by \$2.314 million. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

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

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

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

The following is a schedule of activity for fiscal year 2012 on the Series 2005 general obligation refunding bonds (amounts in 000's):

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>
Current interest bonds	\$ 26,325	\$ -	\$ (650)	\$ 25,675
Capital appreciation bonds	470	-	-	470
Accreted interest on capital appreciation bonds	<u>1,240</u>	<u>400</u>	<u>-</u>	<u>1,640</u>
Total G.O. Bonds	<u>\$ 28,035</u>	<u>\$ 400</u>	<u>\$ (650)</u>	<u>\$ 27,785</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year <u>Ending</u>	Current Interest Bonds			Capital Appreciation Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	\$ 1,237	\$ 1,237	\$ 133	\$ 532	\$ 665
2014	-	1,237	1,237	337	1,733	2,070
2015	2,070	1,186	3,256	-	-	-
2016	2,170	1,080	3,250	-	-	-
2017	2,280	980	3,260	-	-	-
2018 - 2022	13,005	3,212	16,217	-	-	-
2023 - 2024	6,150	311	6,461	-	-	-
Total	<u>\$ 25,675</u>	<u>\$ 9,243</u>	<u>\$ 34,918</u>	<u>\$ 470</u>	<u>\$ 2,265</u>	<u>\$ 2,735</u>

C. Notes Payable

During fiscal year 2002, the District issued \$6.165 million in Series 2002 tax anticipation notes. The Series 2002 notes bear annual interest rates ranging from 3.25% - 5.00% and mature on June 1, 2013. The Series 2002 notes will be retired with tax revenues of the general fund. The tax revenues collected by the general fund are transferred to the debt service fund for payment of the principal and interest on the notes (See Note 5.C). These notes are considered long-term obligations since the proceeds were used for capital acquisition and construction. A summary of the tax anticipation note activity for the fiscal year ended June 30, 2012 follows (amounts in 000's):

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>
Tax anticipation note - Series 2002	\$ 1,430	\$ -	\$ (700)	\$ 730
Total	<u>\$ 1,430</u>	<u>\$ -</u>	<u>\$ (700)</u>	<u>\$ 730</u>

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

Fiscal Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 730	\$ 15	\$ 745
Total	<u>\$ 730</u>	<u>\$ 15</u>	<u>\$ 745</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

D. Series 2000 Qualified Zone Academy Bonds

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

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

The QZAB Series 2000 bonds bear no interest and the QZAB Series 2001 bonds require stated annual interest payments. During fiscal year 2012, the District made \$1.239 million in sinking fund deposits. Since inception, a total of \$13.332 million in sinking fund deposits have been made by the District to retire the QZABs at maturity. These deposits are maintained by the District until maturity of the QZABs in fiscal year 2014 and 2016. The resources, being accumulated through the sinking fund, are reported in the debt service fund. On the fund financial statements and on the statement of net assets, the fair market value of the investments accumulated in the sinking fund in the amount of \$13.485 million are reported as a restricted asset since the condition underlying the restriction will not be met in the short or medium term.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

E. Energy Conservation Bonds

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year	Energy Conservation Bonds			
	<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	\$ 365	\$ 365	\$ 365
2014	-	365	365	365
2015	-	366	366	366
2016	-	366	366	366
2017	-	365	365	365
2018 - 2022	-	1,827	1,827	1,827
2023 - 2026	6,729	1,279	8,008	8,008
Total	<u>\$ 6,729</u>	<u>\$ 4,933</u>	<u>\$ 11,662</u>	<u>\$ 11,662</u>

F. Retirement Incentive Program and Health Care Reimbursement Arrangement

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

In addition to severance payments, employees electing to retire under the RIP are entitled to a health care reimbursement arrangement (HRA) established by the District for the benefit of the retiring teachers and their spouses. Under the HRA, retiring teachers will receive payments, by year, in varying amounts between \$500 to \$5,300 which will be deposited by the District into a separate account established for the retired employee and their spouse. The HRA is effective until January 15, 2016 or until the retiree and his or her spouse become deceased. The amounts deposited to a retiree’s account may be carried forward over to subsequent years and shall not be subject to forfeiture, except upon the death of both the retiree and his or her spouse. The HRA liability has been recorded in the general fund to the extent the health care costs are expected to be liquidated with expendable available resources. The remainder of the liability has been recorded on the government-wide statement of net assets as a component of “long-term liabilities”. The total estimated liability under the HRA at June 30, 2012 was \$4.001 million of which \$661,000 is expected to become due within one year. A total of 197 employees have retired under the HRA as of June 30, 2012. The total HRA liability was calculated based upon required payments under the HRA for each applicable employee.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

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

	Balance <u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2012</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
General obligation bonds:					
Current interest	\$ 26,325	\$ -	\$ (650)	\$ 25,675	\$ -
Capital appreciation	470	-	-	470	133
Accreted interest	1,240	400	-	1,640	466
QZAB's	16,100	-	-	16,100	-
Total G.O. bonds	<u>44,135</u>	<u>400</u>	<u>(650)</u>	<u>43,885</u>	<u>599</u>
Notes payable	1,430	-	(700)	730	730
Energy conservation bonds	6,729	-	-	6,729	-
Compensated absences payable	5,821	542	(1,114)	5,249	751
Health care reimbursement arrangement payable	4,751	-	(750)	4,001	661
Capital lease obligation	<u>673</u>	<u>-</u>	<u>(220)</u>	<u>453</u>	<u>106</u>
Total governmental activities long-term liabilities	63,539	<u>\$ 942</u>	<u>\$ (3,434)</u>	61,047	<u>\$ 2,847</u>
Less: deferred charge on refunding	(1,539)			(1,415)	
Add: unamortized premium	1,811			1,657	
Total on statement of net assets	<u>\$ 63,811</u>			<u>\$ 61,289</u>	

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

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

H. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012 are a voted debt margin of \$51.039 million (including available funds of \$14.478 million) and an unvoted debt margin of \$697,000.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

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

<u>Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:		
Each occurrence	\$ 1,000,000	\$ 0
Aggregate	2,000,000	0
Building and contents	359,147,752	10,000
Boiler and machinery	5,000,000	10,000
Non blanket buildings	3,028,500	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 2011.

B. Shared Risk Pool

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

C. Workers' Compensation Program

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 - RISK MANAGEMENT - (Continued)

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2012	\$ 235	\$ 402	\$ (332)	\$ 305
2011	56	334	(155)	235

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

NOTE 12 - COMPENSATED ABSENCES

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

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

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 13 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1.805 million, \$1.679 million and \$1.894 million, respectively; 60.07 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

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

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

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

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 13 - PENSION PLANS - (Continued)

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$7.085 million, \$7.216 million and \$7.140 million, respectively; 83.19 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$201,000 made by the District and \$144,000 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$379.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 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 2012, the actuarially determined amount was \$35,800.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$295,000, \$423,000 and \$292,000, respectively; 60.07 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$107,000, \$108,000 and \$113,000, respectively; 60.07 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$545,000, \$555,000 and \$549,000, respectively; 83.19 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (340)
Net adjustment for revenue accruals	(778)
Net adjustment for expenditure accruals	286
Net adjustment for other sources/uses	(1,145)
Funds budgeted elsewhere	130
Adjustment for encumbrances	3,664
GAAP basis	\$ 1,817

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 16 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The District had offsets during the fiscal year that reduced the set-aside amount to zero for the capital improvements set-aside. During fiscal year 2001, the District issued \$46.706 million in capital related school improvement bonds. During fiscal year 2011, the District issued \$6.729 million in capital related energy conservation bonds. These proceeds may be used to reduce the capital improvements set-aside to zero for future years. The District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$41.421 million at June 30, 2012.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2011	\$ -
Current year set-aside requirement	1,675
Current year offsets	(1,051)
Prior year offset from bond proceeds	<u>(624)</u>
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2013	<u>\$ -</u>
Set-aside balance June 30, 2012	<u>\$ -</u>

NOTE 17 - CONTINGENCIES

A. Grants and ADM

The Auditor of State (AOS) issued its Statewide Audit of Student Attendance Data and Accountability System on February 11, 2013, a statewide assessment of school year 2010-11 student attendance and enrollment practices for select Ohio schools. AOS has referred the Canton City School District as a district with evidence of scrubbing to the Ohio Department of Education (ODE) and U.S. Department of Education Office of the Inspector General (IG) for further investigation and recalculation of the school report cards. The ODE and IG have not yet determined the impact of these results.

The District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data; however, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 17 – CONTINGENCIES - (Continued)

B. Litigation

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

NOTE 18 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 2,719
Other governmental	<u>4,503</u>
Total	<u>\$ 7,222</u>

NOTE 19 - FISCAL CAUTION

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

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Sub Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. Department of Education</u>						
<i>(Direct)</i>						
Impact Aid	84.041	N/A	\$24,599	-	\$23,006	-
Student Financial Assistance Cluster:						
Federal Pell Grant Program	84.063	N/A	370,785	-	370,785	-
Federal Family Education Loans	84.032	N/A	394,320	-	394,320	-
<i>Total Student Financial Assistance Cluster</i>			765,105	-	765,105	-
<i>(Passed through the Ohio Department of Education)</i>						
Adult Education - Basic Grants to States	84.002	043711ABS112	288,158	-	332,860	-
		043711ABS212	26,176	-	32,811	-
		043711ABIG10	53,971	-	22,877	-
		043711ABS111	47,607	-	27,364	-
<i>Total Adult Education - Basic Grants to States</i>			415,912	-	415,912	-
Title I, Part A Cluster:						
Title I Grants to Local Educational Agencies	84.010	043711C1S111	1,021,026	-	873,836	-
		043711C1SD11	3,791	-	3,899	-
		043711C1SK12	465,158	-	457,356	-
		043711C1SK11	89,874	-	122,621	-
		043711C1SD11	10,516	-	10,445	-
		043711C1S112	5,362,287	-	5,475,132	-
<i>Total Title I Grants to Local Educational Agencies</i>			6,952,652	-	6,943,289	-
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	N/A	340,147	-	714,478	-
		N/A	6,034	-	6,664	-
<i>ARRA - Total Title I Grants to Local Educational Agencies, Recovery Act</i>			346,181	-	721,142	-
<i>Total Title I, Part A Cluster</i>			7,298,833	-	7,664,431	-
Special Education Cluster:						
Special Education Grants to States	84.027	0437116BSF12	2,173,157	-	1,708,489	-
		0437116BSF11	0	-	79,999	-
		04371144306535E12	44,361	-	39,701	-
		04371144306535E11	10,235	-	8,377	-
<i>Total Special Education Grants to States</i>			2,227,753	-	1,836,566	-
ARRA - Special Education Grants to States, Recovery Act	84.391	N/A	1,132,244	-	1,136,730	-
Special Education Preschool Grants	84.173	043711PGS111P	51,488	-	57,778	-
		043711PGS120P	112,399	-	114,530	-
<i>Total Special Education Preschool Grants</i>			163,887	-	172,308	-
ARRA - Special Education Preschool Grants, Recovery Act	84.392	N/A	9,000	-	7,480	-
<i>Total Special Education Cluster</i>			3,532,884	-	3,153,084	-
Career and Technical Education - Basic Grants to States	84.048	04371120C211	24,975	-	28,537	-
		04371120C111	125,864	-	103,239	-
		04371120C112	248,017	-	238,779	-
		04371120C212	50,347	-	43,410	-
<i>Total Career and Technical Education - Basic Grants to States</i>			449,203	-	413,965	-
Safe and Drug-Free Schools and Communities State Grants	84.186	043711DRS111	21,865	-	1,522	-

CONTINUED

CANTON CITY SCHOOL DISTRICT
STARK COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/ Sub Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
Education for Homeless Children and Youth Cluster:						
Education for Homeless Children and Youth	84.196	043711HCS112 043711HCS111	\$94,709 28,732	- -	\$104,624 9,240	- -
<i>Total Education for Homeless Children and Youth</i>			123,441	-	113,864	-
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	N/A	55,185	-	26,066	-
<i>Total Education for Homeless Children and Youth Cluster</i>			178,626	-	139,930	-
Even Start State Educational Agencies	84.213	043711EVS112 043711EVS111	115,440 -	- -	112,881 4,641	- -
<i>Total Even Start State Educational Agencies</i>			115,440	-	117,522	-
Twenty-First Century Community Learning Centers	84.287	043711T1S112 043711T1S111	197,630 57,570	- -	161,134 44,602	- -
<i>Total Twenty-First Century Community Learning Centers</i>			255,200	-	205,736	-
Education Technology State Grants Cluster:						
Education Technology State Grants	84.318	043711TJS112 043711TJS111	6,628 12,609	- -	21,998 14,877	- -
<i>Total Education Technology State Grants</i>			19,237	-	36,875	-
ARRA - Education Technology State Grants, Recovery Act	84.386	N/A	56,030	-	74,082	-
<i>Total Education Technology State Grants Cluster</i>			75,267	-	110,957	-
Improving Teacher Quality State Grants	84.367	043711TRS111 043711TRS112	412,113 988,446	- -	416,947 998,559	- -
<i>Total Improving Teacher Quality State Grants</i>			1,400,559	-	1,415,506	-
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	N/A	-	-	736,225	-
ARRA - Race-to-the Top Incentive Grants, Recovery Act	84.395	N/A	92,007	-	84,150	-
ARRA - School Improvement Grants, Recovery Act	84.388	N/A	165,746	-	155,389	-
Education Jobs Fund	84.410	N/A	3,064,001	-	2,936,930	-
(Passed through the National Council for Community and Education Partnership)						
English Language Acquisition State Grants	84.365	043711T3S211 043711T3S212	11,155 6,013	- -	10,767 3,352	- -
<i>Total English Language Acquisition State Grants</i>			17,168	-	14,119	-
Total U.S. Department of Education			17,872,415	-	18,353,489	-

CONTINUED

CANTON CITY SCHOOL DISTRICT
STARK COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/ Sub Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
(Direct)						
Child and Adult Care Food Program	10.558	N/A	\$1,031	-	\$21,940	-
(Passed through the Ohio Department of Education)						
Child Nutrition Cluster:						
Non-Cash Assistance (Food Distribution)						
National School Lunch Program	10.555	N/A	-	152,937	-	152,937
Cash Assistance						
School Breakfast Program	10.553	N/A	1,030,577	-	670,564	-
National School Lunch Program	10.555	N/A	3,692,467	-	3,243,240	-
<i>Total Child Nutrition Cluster</i>			<u>4,723,044</u>	<u>152,937</u>	<u>3,913,804</u>	<u>152,937</u>
Total U.S. Department of Agriculture			<u>4,724,075</u>	<u>152,937</u>	<u>3,935,744</u>	<u>152,937</u>
U.S. Department of Labor						
(Passed through Service Delivery Area No. 23)						
Workforce Investment Act Youth Activities	17.259	N/A	24,120	-	15,577	-
Total U.S. Department of Labor			<u>24,120</u>	<u>-</u>	<u>15,577</u>	<u>-</u>
U.S. Department of Health and Human Services						
(Passed through the Ohio Department of Jobs and Family Services)						
Temporary Assistance for Needy Families						
Student Intervention	93.558	N/A	-	-	8,546	-
Total U.S. Department of Health and Human Services			<u>-</u>	<u>-</u>	<u>8,546</u>	<u>-</u>
Total			<u><u>\$22,620,610</u></u>	<u><u>\$152,937</u></u>	<u><u>\$22,313,356</u></u>	<u><u>\$152,937</u></u>

The accompanying notes are an integral part of this schedule.

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Canton City School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

Canton City School District
Stark County
1312 5th Street SW
Canton, Ohio 44707

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Canton City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 6, 2013 wherein we noted the District is in fiscal caution. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

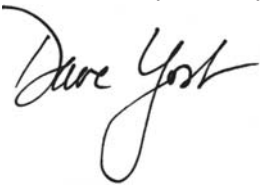
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated March 6, 2013.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

March 6, 2013



Dave Yost • Auditor of State

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

Canton City School District
Stark County
1312 5th Street SW
Canton, Ohio 44707

To the Board of Education:

Compliance

We have audited the compliance of Canton City School District, Stark County, Ohio (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Canton City School District's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

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

As described in finding 2012-001 in the accompanying schedule of findings, the District did not comply with requirements regarding procurement, suspension and debarment applicable to its Improving Teacher Quality State Grants and Special Education Cluster major federal programs. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Canton City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. 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 federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2012-001 to be a material weakness.

The District's response to the finding we identified is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the District's management in a separate letter dated March 6, 2013.

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



Dave Yost
Auditor of State

March 6, 2013

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	ARRA – State Fiscal Stabilization Fund (SFSF) – CFDA # 84.394 Special Education Cluster – CFDA # 84.027, 84.173, 84.391, and 84.392 Improving Teacher Quality State Grants – CFDA # 84.367 Education Jobs Fund CFDA # 84.410
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 673,989 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Procurement, Suspension and Debarment

Finding Number	2012-001
CFDA Title and Number	Special Education Cluster – CFDA# 84.027; 84.391; 84.173 and 84.392 Improving Teacher Quality State Grants – CFDA# 84.367
Federal Award Number / Year	Fiscal 2011 and 2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

2 CFR Section 180.300 indicates when you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS (Excluded Parties List System); or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

The District entered into two purchased services contracts in excess of \$25,000 for the expenditure of Improving Teacher Quality funds and six contracts for either goods or purchased services in excess of \$25,000 for the expenditure of Special Education funds. However, the District failed to maintain evidence documenting EPLS searches were performed, certifications were collected, or clauses/conditions were added to the covered transactions. We subsequently reviewed the EPLS, noting the vendors were not listed on the EPLS as being excluded or disqualified.

Additionally, while testing this requirement we were unable to identify any specific control procedures the District had in place related to the federal requirement of Procurement, Suspension, and Debarment to help prevent instances of non-compliance mentioned above.

The District should establish procedures to help ensure one of the three aforementioned methods is used to verify an entity is not excluded or disqualified before entering into contracts for goods or services expected to equal or exceed \$25,000. Additionally, if the District checks the EPLS, documentation of this search should be maintained.

The District should also review its policies and procedures and develop specific control procedures for federal compliance requirements such as Procurement, Suspension and Debarment in order to prevent potential material noncompliance with federal compliance requirements.

Official's Response/Corrective Action Plan:

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2012-001	<p>Canton City School employees will verify that the person or business with whom the district intends to do business is not excluded or disqualified from doing business with the district due to the person or business being suspended or debarred by the federal government. Canton City School district employees will certify the eligibility of a person or business for all contracts in excess of \$25,000 utilizing the Excluded Parties Listing System (EPLS) at:</p> <p>https://www.sam.gov/portal/public/SAM/</p> <p>A copy of the certificate or a screen print verifying the person or business is not suspended or debarred will be printed out and maintained within the department for review.</p>	April 1, 2013	Jeff Gruber

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Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedure

Canton City School District
Stark County
1312 5th Street SW
Canton, Ohio 44707

To the Board of Education:

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on June 11, 2012, to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

March 6, 2013

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Dave Yost • Auditor of State

CANTON CITY SCHOOL DISTRICT

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 2, 2013