

# **Canton City School District**

## **Stark County, Ohio**

### *Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2015





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Canton City School District, Stark County, prepared by Rea & Associates, Inc., for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

June 7, 2016



**Canton City School District**  
**Stark County, Ohio**  
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April 26, 2016

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

## **Independent Auditor's Report**

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Canton City School District, Stark County, Ohio, (the "School District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Canton City School District, Stark County, Ohio, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note 2, the School District restated net position balances to account for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Net position balances were also restated due to the School District having a reappraisal done on capital assets as well as other audit adjustments that corrected cash receipting errors in prior years. Our opinions are not modified with respect to these matters.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis, schedule of the school district's proportionate share of the net pension liability and schedule of school district contributions* on pages 5-14, 67 and 68-69, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

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



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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2016 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

*Hea & Associates, Inc.*

Medina, Ohio

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The discussion and analysis of the Canton City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

***Financial Highlights***

Key financial highlights for 2015 are as follows:

- Net position increased \$6,035,786, which represents a 10 percent increase from 2014.
- Capital assets decreased \$1,950,205 during fiscal year 2015.
- During the fiscal year, outstanding debt decreased from \$34,582,424 to \$31,339,031 due to principal payments made by the School District
- The School District implemented GASB 68, which reduced beginning net position as previously reported by \$176 million.

***Using this Annual Report***

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

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

***Reporting the School District as a Whole***

*Statement of Net Position and the Statement of Activities*

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2015?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

***Fund Financial Statements***

The analysis of major funds begins on page 12. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the debt service fund.

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

***Proprietary Fund*** The School District maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses internal service funds to account for workers' compensation and warehouse service programs. Because this service predominately benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements. The proprietary fund financial statements begin on page 22.

***Reporting the School District's Fiduciary Responsibilities***

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

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**The School District as a Whole**

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2015 compared to 2014:

**Table 1**  
**Net Position**

	Governmental Activities	
	2015	2014 Restated
<b>Assets</b>		
Current and Other Assets	\$ 69,583,581	\$ 68,862,098
Restricted Assets	1,794,302	3,248,404
Capital Assets	126,347,256	128,297,461
<i>Total Assets</i>	<u>197,725,139</u>	<u>200,407,963</u>
<b>Deferred Outflows of Resources</b>		
Deferred Charges on Refunding	1,083,551	1,826,711
Pension	11,636,239	9,644,876
<i>Total Deferred Outflows of Resources</i>	<u>12,719,790</u>	<u>11,471,587</u>
<b>Liabilities</b>		
Other Liabilities	16,045,739	16,183,847
Long-Term Liabilities		
Due Within One Year	4,303,650	3,967,924
Due in More Than One Year		
Net Pension Liability	156,462,766	185,938,766
Other Amounts	35,400,738	40,076,759
<i>Total Liabilities</i>	<u>212,212,893</u>	<u>246,167,296</u>
<b>Deferred Inflows of Resources</b>		
Property Taxes Levied for the Next Year	24,818,780	26,665,520
Pension	28,330,736	0
<i>Total Deferred Inflows of Resources</i>	<u>53,149,516</u>	<u>26,665,520</u>
<b>Net Position</b>		
Net Investment in Capital Assets	95,918,632	93,212,324
Restricted	24,112,481	25,843,299 *
Unrestricted	(174,948,593)	(180,008,889) *
<i>Total Net Position</i>	<u>\$ (54,917,480)</u>	<u>\$ (60,953,266)</u>

\*Net position classifications were reclassified for fiscal year 2014 as a result of a restatement. See note 2-U.

During fiscal year 2015, the School District adopted Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*, which significantly revises accounting for pension costs and liabilities and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows of resources.

As a result of implementing GASB 68, the School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$115,340,624, net of restatement for capital assets, to a deficit of \$60,953,266.

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At year end, capital assets represented 64 percent of total assets. Capital assets include land, buildings and improvements, land improvements, furniture, equipment and vehicles. The net investment in capital assets was \$95,918,632 at June 30, 2015. These capital assets are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net position, \$24,112,481 represents resources that are subject to external restrictions on how they may be used.

The School District saw a \$1,454,102 decrease in restricted assets. This was caused by the use of restricted equity in pooled cash and investments to pay the Series 2001 QZAB, offset by contributions made to the Energy Conservation Bonds sinking fund.

There was a \$1,248,203 increase in deferred outflows of resources related to pension and a \$29,476,000 decrease in net pension liability. Deferred inflows saw a \$28,330,736 million increase in deferred inflows related to pension as a result of the implementation of GASB 68. This was offset by a \$1,846,740 decrease in deferred inflows for property taxes. The School District paid the Series 2001 QZAB in full during fiscal year 2015.

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In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2015 and 2014.

**Table 2**  
**Changes in Net Position**

	Governmental Activities	
	2015	2014
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$ 2,299,172	\$ 2,735,213
Operating Grants, Contributions and Interest	30,248,161	31,593,655
<i>Total Program Revenues</i>	<u>32,547,333</u>	<u>34,328,868</u>
<i>General Revenues:</i>		
Property Taxes	30,413,370	27,732,133
Grants and Entitlements Not Restricted	82,131,396	73,082,217
Other	412,829	938,086
<i>Total General Revenues</i>	<u>112,957,595</u>	<u>101,752,436</u>
<i>Total Revenues</i>	<u>145,504,928</u>	<u>136,081,304</u>
<b>Program Expenses</b>		
<i>Instruction:</i>		
Regular	43,529,581	42,977,497
Special	19,243,804	18,854,210
Vocational	2,893,534	2,294,449
Adult/Continuing	1,426,006	1,394,022
Student Intervention Services	17,001,795	15,775,806
Other	99,995	31,247
<i>Support Services:</i>		
Pupils	8,011,782	7,442,292
Instructional Staff	4,177,699	4,613,455
Board of Education	41,009	21,825
Administration	11,384,218	12,022,118
Fiscal	2,104,004	1,968,674
Business	432,223	599,975
Operation and Maintenance of Plant	11,572,078	12,170,221
Pupil Transportation	4,102,697	3,446,325
Central	3,121,942	2,216,861
<i>Operation of Non-Instructional Services:</i>		
Food Service Operations	4,844,098	5,161,071
Community Services	1,507,414	1,829,801
Extracurricular Activities	2,430,018	2,953,848
<i>Debt Service:</i>		
Interest and Fiscal Charges	1,399,210	1,715,225
Issuance Costs	146,035	0
<i>Total Expenses</i>	<u>139,469,142</u>	<u>137,488,922</u>
<i>Increase (Decrease) in Net Position</i>	<u>\$ 6,035,786</u>	<u>\$ (1,407,618)</u>



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The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$9,644,876 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$7,023,578. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$ 139,469,142
Pension expense under GASB 68	(7,023,578)
2015 contractually required contribution	<u>10,160,205</u>
Adjusted 2015 program expenses	142,605,769
Total 2014 program expenses under GASB 27	<u>137,488,922</u>
Increase in program expenses not related to pension	<u>\$ 5,116,847</u>

The School District had a \$1,345,494 decrease in operating grants caused by a decrease in federal grants receivable due to timing differences. Property tax revenue increased \$2,681,237 caused by an increase in property tax receipts as well as increased delinquent receivable in fiscal year 2015. Grants and entitlements not restricted increased \$9,049,179 primarily due to an increase in foundation received from the State.

There was a \$1,225,989 increase in student intervention expenses that was caused by an increase in tuition paid to other school districts and community schools.

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

**Table 3**  
**Governmental Activities**

	Total Cost of Service		Net Cost of Service	
	2015	2014	2015	2014
Instruction:				
Regular	\$ 43,529,581	\$ 42,977,497	\$ 41,354,751	\$ 41,186,666
Special	19,243,804	18,854,210	3,428,169	2,704,297
Vocational	2,893,534	2,294,449	1,716,166	1,237,432
Adult/Continuing	1,426,006	1,394,022	(282,234)	(356,317)
Student Intervention Services	17,001,795	15,775,806	17,000,590	15,775,806
Other	99,995	31,247	98,487	31,247
Support Services:				
Pupils	8,011,782	7,442,292	7,025,681	6,421,434
Instructional Staff	4,177,699	4,613,455	2,291,446	804,464
Board of Education	41,009	21,825	41,009	21,825
Administration	11,384,218	12,022,118	10,717,607	11,003,713
Fiscal	2,104,004	1,968,674	1,892,642	1,794,293
Business	432,223	599,975	432,223	578,630
Operation and Maintenance of Plant	11,572,078	12,170,221	11,077,521	11,702,440
Pupil Transportation	4,102,697	3,446,325	3,333,998	2,582,689
Central	3,121,942	2,216,861	2,925,399	2,111,400
Operation of Non-Instructional Services:				
Food Service Operations	4,844,098	5,161,071	(576,287)	214,934
Community Services	1,507,414	1,829,801	865,639	1,253,219
Extracurricular Activities	2,430,018	2,953,848	2,033,757	2,376,657
Debt Service:				
Interest and Fiscal Charges	1,399,210	1,715,225	1,399,210	1,715,225
Issuance Costs	146,035	0	146,035	0
<i>Total Expenses</i>	<b>\$ 139,469,142</b>	<b>\$ 137,488,922</b>	<b>\$ 106,921,809</b>	<b>\$ 103,160,054</b>

The dependence upon general revenues for governmental activities is apparent. Nearly 77 percent of governmental activities are supported through taxes and other general revenues; such revenues are 78 percent of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

***Governmental Funds***

Information about the School District's major funds starts on page 17. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$143,527,753 and expenditures of \$145,609,355 for the fiscal year.

The general fund's net change in fund balance for fiscal year 2015 was a decrease of \$1,972,619. The School District had an increase of \$6,464,973 in revenue that was primarily caused by an increase in state foundation and property tax receipts. This was partially offset by a \$3,816,041 increase in expenditures.

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This increase was caused by an increase in tuition paid to other schools as well as the purchase of twenty school buses during fiscal year 2015. As in prior years, the School District's expenditures continue to exceed receipts.

The fund balance of the debt service fund increased \$326,281 due to the timing of property tax collections versus debt payments.

***General Fund Budgeting Highlights***

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

During the course of fiscal year 2015, the School District did amend its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, actual budget basis revenue of \$113,044,864 was higher than the final budget basis revenue by \$302,816. Final budget revenue increased \$1,579,175 over the original budget. Both variances were primarily caused by an increase in intergovernmental revenue due to an increase in foundation revenue.

Final expenditure appropriations of \$117,165,360 were \$831,715 higher than the actual expenditures of \$116,333,645, as cost savings were recognized for instruction and student support services throughout the year. Final appropriations were \$3,961,531 higher than original appropriations.

***Capital Assets and Debt Administration***

**Capital Assets**

At the end of fiscal year 2015, the School District had \$126,347,256 invested in capital assets. Table 4 shows fiscal year 2015 balances compared with 2014.

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

	Governmental Activities	
	2015	2014 Restated
Land	\$ 5,916,100	\$ 5,916,100
Land Improvements	637,513	729,177
Buildings and Building Improvements	116,022,490	120,612,877
Furniture and Fixtures	1,250,838	44,480
Vehicles	2,520,315	994,827
<i>Totals</i>	\$ 126,347,256	\$ 128,297,461

The \$1,950,205 decrease in capital assets was attributable to current year depreciation exceeding additional purchases. See Note 8 for more information about the capital assets of the School District.

**Canton City School District**  
**Stark County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2015*

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**Debt**

At June 30, 2015, the School District had \$31,339,031 in debt outstanding. See Notes 9 and 10 for additional details. Table 5 summarizes debt outstanding.

**Table 5**  
**Outstanding Debt at Year End**

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
General Obligation Bonds	\$ 23,295,000	\$ 27,525,000
Energy Conservation Bonds	6,728,636	6,728,636
Lease Obligations	<u>1,315,395</u>	<u>328,788</u>
<i>Total</i>	<u>\$ 31,339,031</u>	<u>\$ 34,582,424</u>

***Current Issues***

The School District faces two issues moving forward. Declining enrollment continues to be a top priority. Students and families electing to choose educational opportunities at competing community schools or simply moving out of the district are the primary reasons for declining enrollment.

The other issue the School District faces is the continuing decline in assessed valuation of real property within district boundaries. Declining valuations result in less local property tax collections on existing levies and impacts millage rates of future levies placed on the ballot.

***Contacting the School District's Financial Management***

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

**Canton City School District**  
**Stark County, Ohio**  
*Statement of Net Position*  
*June 30, 2015*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 24,945,718
Inventory Held For Resale	56,641
Materials and Supplies Inventory	119,899
Receivables:	
Intergovernmental	7,814,459
Property Taxes	36,646,864
Restricted Assets:	
Cash and Investments with Escrow Agent	1,794,302
Nondepreciable Capital Assets	5,916,100
Depreciable Capital Assets (Net)	120,431,156
<i>Total Assets</i>	197,725,139
<b>Deferred Outflows of Resources</b>	
Deferred Charges on Debt Refunding	1,083,551
Pension	11,636,239
<i>Total Deferred Outflows of Resources</i>	12,719,790
<b>Liabilities</b>	
Accounts Payable	1,720,584
Accrued Wages and Benefits	10,540,746
Intergovernmental Payable	2,730,279
Matured Compensated Absences Payable	473,859
Accrued Interest Payable	100,858
Claims Payable	479,413
Long Term Liabilities:	
Due Within One Year	4,303,650
Due In More Than One Year	
Other Amounts Due In More Than One Year	35,400,738
Net Pension Liability (See Note 13)	156,462,766
<i>Total Liabilities</i>	212,212,893
<b>Deferred Inflows of Resources</b>	
Property Taxes Levied for the Next Year	24,818,780
Pension	28,330,736
<i>Total Deferred Inflows of Resources</i>	53,149,516
<b>Net Position</b>	
Net Investment in Capital Assets	95,918,632
Restricted For:	
Capital Outlay	4,314,110
Debt Service	6,878,566
Classroom Facilities Maintenance	4,864,777
Food Service Operations	4,813,496
Other Purposes	3,241,532
Unrestricted	(174,948,593)
<i>Total Net Position</i>	\$ (54,917,480)

See accompanying notes to the basic financial statements.

**Canton City School District**  
**Stark County, Ohio**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2015

	Program Revenues		Net (Expense)	
	Charges for	Operating	Revenue and	
Expenses	Services	Grants,	Changes in Net Position	
	and Sales	Contributions	Governmental	
		and Interest	Activities	
<b>Governmental Activities</b>				
Instruction:				
Regular	\$ 43,529,581	\$ 272,508	\$ 1,902,322	\$ (41,354,751)
Special	19,243,804	74,917	15,740,718	(3,428,169)
Vocational	2,893,534	40,167	1,137,201	(1,716,166)
Adult/Continuing	1,426,006	803,270	904,970	282,234
Student Intervention Services	17,001,795	0	1,205	(17,000,590)
Other	99,995	0	1,508	(98,487)
Support Services:				
Pupils	8,011,782	66,431	919,670	(7,025,681)
Instructional Staff	4,177,699	0	1,886,253	(2,291,446)
Board of Education	41,009	0	0	(41,009)
Administration	11,384,218	0	666,611	(10,717,607)
Fiscal	2,104,004	0	211,362	(1,892,642)
Business	432,223	0	0	(432,223)
Operation and Maintenance of Plant	11,572,078	494,557	0	(11,077,521)
Pupil Transportation	4,102,697	0	768,699	(3,333,998)
Central	3,121,942	12,819	183,724	(2,925,399)
Operation of Non-Instructional Services:				
Food Service Operations	4,844,098	95,108	5,325,277	576,287
Community Services	1,507,414	51,222	590,553	(865,639)
Extracurricular Activities	2,430,018	388,173	8,088	(2,033,757)
Debt Service:				
Interest and Fiscal Charges	1,399,210	0	0	(1,399,210)
Issuance Costs	146,035	0	0	(146,035)
<b>Total</b>	<b>\$ 139,469,142</b>	<b>\$ 2,299,172</b>	<b>\$ 30,248,161</b>	<b>(106,921,809)</b>

**General Revenues**

Property Taxes Levied for:

General Purposes	24,587,482
Debt Service	4,819,965
Capital Outlay	581,534
Classroom Facilities Maintenance	424,389
Grants and Entitlements Not Restricted to Specific Programs	82,131,396
Investment Earnings	71,833
Miscellaneous	340,996
<b>Total General Revenues</b>	<b>112,957,595</b>

*Change in Net Position*

6,035,786

*Net Position Beginning of Year - Restated, See Note 2-U*

(60,953,266)

*Net Position End of Year*

**\$ (54,917,480)**

See accompanying notes to the basic financial statements.

**Canton City School District**  
**Stark County, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2015*

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Investments	\$ 7,387,566	\$ 1,729,104	\$ 15,284,555	\$ 24,401,225
Restricted Cash and Investments with Escrow Agent	0	1,793,886	416	1,794,302
Inventory Held For Resale	0	0	56,641	56,641
Materials and Supplies Inventory	102,895	0	17,004	119,899
Receivables:				
Interfund	90,336	0	0	90,336
Intergovernmental	3,882,227	27,289	3,904,943	7,814,459
Property Taxes	30,875,325	4,512,308	1,259,231	36,646,864
Advances to Other Funds	0	1,343,906	2,233,116	3,577,022
<i>Total Assets</i>	<u>\$ 42,338,349</u>	<u>\$ 9,406,493</u>	<u>\$ 22,755,906</u>	<u>\$ 74,500,748</u>
<b>Liabilities</b>				
Accounts Payable	\$ 883,978	\$ 0	\$ 566,643	\$ 1,450,621
Accrued Wages and Benefits	9,179,514	0	1,360,439	10,539,953
Intergovernmental Payable	2,202,926	0	369,884	2,572,810
Matured Compensated Absences Payable	378,370	0	95,489	473,859
Interfund Payable	0	0	90,336	90,336
Advances from Other Funds	3,577,022	0	0	3,577,022
<i>Total Liabilities</i>	<u>16,221,810</u>	<u>0</u>	<u>2,482,791</u>	<u>18,704,601</u>
<b>Deferred Inflows of Resources</b>				
Property Taxes Levied for the Next Year	21,517,158	2,427,069	874,553	24,818,780
Unavailable Revenue	11,987,552	1,815,657	3,034,211	16,837,420
<i>Total Deferred Inflows of Resources</i>	<u>33,504,710</u>	<u>4,242,726</u>	<u>3,908,764</u>	<u>41,656,200</u>
<b>Fund Balances</b>				
Nonspendable	102,895	0	17,004	119,899
Restricted	0	5,163,767	17,018,478	22,182,245
Unassigned	(7,491,066)	0	(671,131)	(8,162,197)
<i>Total Fund Balances</i>	<u>(7,388,171)</u>	<u>5,163,767</u>	<u>16,364,351</u>	<u>14,139,947</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 42,338,349</u>	<u>\$ 9,406,493</u>	<u>\$ 22,755,906</u>	<u>\$ 74,500,748</u>

See accompanying notes to the basic financial statements.

**Canton City School District**  
**Stark County, Ohio**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Position of Governmental Activities*  
*June 30, 2015*

<b>Total Governmental Fund Balances</b>		\$ 14,139,947
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		126,347,256
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental	\$ 6,583,840	
Property Taxes	<u>10,253,580</u>	16,837,420
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds.		
Deferred Outflows - Pension	11,636,239	
Deferred Inflows - Pension	(28,330,736)	
Net Pension Liability	<u>(156,462,766)</u>	(173,157,263)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		(363,145)
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(100,858)
In the statement of activities, a gain/loss on refunding is amortized over the term of the bonds, whereas in governmental funds a refunding gain/loss is reported when bonds are issued.		1,083,551
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	(23,295,000)	
Energy Conservation Bonds	(6,728,636)	
Bond Premium	(1,722,523)	
Capital Lease Obligation	(1,315,395)	
Healthcare Termination Benefits	(2,443,293)	
Compensated Absences	<u>(4,199,541)</u>	<u>(39,704,388)</u>
<i>Net Position of Governmental Activities</i>		<u><u>\$ (54,917,480)</u></u>

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, 2015*

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property and Other Local Taxes	\$ 24,197,052	\$ 4,239,988	\$ 988,681	\$ 29,425,721
Intergovernmental	88,167,537	1,168,504	21,852,805	111,188,846
Investment Income	55,041	(900)	56,064	110,205
Tuition and Fees	1,061,662	0	14,690	1,076,352
Extracurricular Activities	131,015	0	385,443	516,458
Rentals	507,603	0	0	507,603
Charges for Services	103,651	0	95,108	198,759
Contributions and Donations	89,108	0	52,178	141,286
Miscellaneous	340,996	0	21,527	362,523
<i>Total Revenues</i>	<u>114,653,665</u>	<u>5,407,592</u>	<u>23,466,496</u>	<u>143,527,753</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	40,765,360	0	2,151,263	42,916,623
Special	11,531,606	0	7,516,702	19,048,308
Vocational	3,124,460	0	94,730	3,219,190
Adult Education	945,392	0	504,503	1,449,895
Student Intervention Services	17,004,536	0	1,332	17,005,868
Other	108,302	0	1,667	109,969
Support Services:				
Pupils	7,010,085	0	1,030,263	8,040,348
Instructional Staff	1,689,448	0	2,605,582	4,295,030
Board of Education	41,127	0	0	41,127
Administration	10,791,164	0	779,357	11,570,521
Fiscal	1,773,966	88,051	243,716	2,105,733
Business	444,851	0	0	444,851
Operation and Maintenance of Plant	10,711,720	0	54,894	10,766,614
Pupil Transportation	5,484,106	0	202,061	5,686,167
Central	2,908,184	0	211,967	3,120,151
Extracurricular Activities	1,452,808	0	832,097	2,284,905
Operation of Non-Instructional Services:				
Food Service Operations	0	0	4,912,449	4,912,449
Community Services	889,249	0	629,694	1,518,943
Capital Outlay	14,175	0	860,844	875,019
Debt Service:				
Principal Retirement	334,709	4,175,000	37,444	4,547,153
Interest and Fiscal Charges	18,658	1,470,619	15,179	1,504,456
Issuance Costs	0	146,035	0	146,035
<i>Total Expenditures</i>	<u>117,043,906</u>	<u>5,879,705</u>	<u>22,685,744</u>	<u>145,609,355</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(2,390,241)</u>	<u>(472,113)</u>	<u>780,752</u>	<u>(2,081,602)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds of General Obligation Bonds	0	8,950,000	0	8,950,000
Premium on Debt Issuance	0	426,647	0	426,647
Inception of Capital Lease	1,358,760	0	0	1,358,760
Payment to Refunded Bond Escrow Agent	0	(9,064,374)	0	(9,064,374)
Transfers In	0	486,121	455,017	941,138
Transfers Out	(941,138)	0	0	(941,138)
<i>Total Other Financing Sources (Uses)</i>	<u>417,622</u>	<u>798,394</u>	<u>455,017</u>	<u>1,671,033</u>
<i>Net Change in Fund Balance</i>	(1,972,619)	326,281	1,235,769	(410,569)
<i>Fund Balances Beginning of Year (Restated, See Note 2-U)</i>	<u>(5,415,552)</u>	<u>4,837,486</u>	<u>15,128,582</u>	<u>14,550,516</u>
<i>Fund Balances End of Year</i>	<u>\$ (7,388,171)</u>	<u>\$ 5,163,767</u>	<u>\$ 16,364,351</u>	<u>\$ 14,139,947</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, 2015*

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	(410,569)
 <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.		
Capital Asset Additions	\$ 3,165,966	
Current Year Depreciation	<u>(5,116,171)</u>	(1,950,205)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes	986,054	
Intergovernmental	<u>987,650</u>	1,973,704
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Bonds	4,175,000	
Capital Leases	<u>372,153</u>	4,547,153
Issuance of refunding bonds results in expenditures and other financing sources and uses in the governmental funds, but these transactions are reflected in the statement of net position as long-term liabilities.		
Payment to Refunded Bond Escrow Agent	9,064,374	
Proceeds of Refunding Bonds	(8,950,000)	
Premium on Refunding Bonds	(426,647)	
Accounting Gain on Refunding	<u>29,676</u>	(282,597)
Debt proceeds issued in the governmental funds that increase long-term in the statement of net position are not reported as revenues.		
Capital Leases		(1,358,760)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		10,160,205
Except for amount reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(7,023,578)
In the statement of activities, interest is accrued on outstanding bonds, and bond premium and gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.		
Accrued Interest Payable	24,028	
Amortization of Premium on Bonds	251,581	
Amortization of Refunding Loss	<u>(200,040)</u>	75,569
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		(329,841)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	223,823 *	
Healthcare Termination Benefits	<u>410,882</u>	<u>634,705</u>
<i>Change in Net Position of Governmental Activities</i>	<u>\$</u>	<u>6,035,786</u>

\* Excludes a decrease of \$5,193 reported in the internal service funds.

See accompanying notes to the basic financial statements.

**Canton City School District**  
**Stark County, Ohio**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -*  
*Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2015*

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
<b>Revenues</b>				
Property and Other Local Taxes	\$ 23,478,224	\$ 23,811,755	\$ 24,005,752	\$ 193,997
Intergovernmental	86,374,362	87,601,392	87,699,384	97,992
Investment Income	46,024	46,678	47,058	380
Tuition and Fees	226,197	229,410	231,279	1,869
Rentals	483,689	490,560	494,557	3,997
Charges for Services	99,226	100,636	101,456	820
Contributions and Donations	55,225	56,010	56,466	456
Miscellaneous	399,926	405,607	408,912	3,305
<i>Total Revenues</i>	<u>111,162,873</u>	<u>112,742,048</u>	<u>113,044,864</u>	<u>302,816</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	39,816,638	41,210,007	40,945,311	264,696
Special	11,280,385	11,675,138	11,610,756	64,382
Vocational	3,433,612	3,553,770	3,447,609	106,161
Student Intervention Services	16,520,691	17,098,827	17,004,536	94,291
Other	116,838	120,927	120,260	667
Support Services:				
Pupils	6,460,507	6,686,590	6,649,717	36,873
Instructional Staff	1,733,853	1,794,529	1,783,780	10,749
Board of Education	31,947	33,065	32,883	182
Administration	10,527,905	10,896,326	10,834,754	61,572
Fiscal	1,771,318	1,833,305	1,823,195	10,110
Business	438,496	453,841	451,338	2,503
Operation and Maintenance of Plant	10,669,367	11,042,738	10,979,099	63,639
Pupil Transportation	4,079,971	4,222,748	4,194,736	28,012
Central	3,515,722	3,638,754	3,567,044	71,710
Extracurricular Activities	1,543,710	1,597,732	1,588,921	8,811
Operation of Non-Instructional Services:				
Community Services	893,150	924,406	919,159	5,247
Capital Outlay	26,407	27,331	27,180	151
Debt Service:				
Principal Retirement	325,185	336,565	334,709	1,856
Interest and Fiscal Charges	18,127	18,761	18,658	103
<i>Total Expenditures</i>	<u>113,203,829</u>	<u>117,165,360</u>	<u>116,333,645</u>	<u>831,715</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(2,040,956)</u>	<u>(4,423,312)</u>	<u>(3,288,781)</u>	<u>1,134,531</u>
<b>Other Financing Sources (Uses)</b>				
Refund of Prior Year Expenditures	44,956	45,595	45,966	371
Refund of Prior Year Receipts	(132,656)	(137,298)	(136,541)	757
Transfers Out	(1,069,806)	(1,107,244)	(1,101,138)	6,106
<i>Total Other Financing Sources (Uses)</i>	<u>(1,157,506)</u>	<u>(1,198,947)</u>	<u>(1,191,713)</u>	<u>7,234</u>
<i>Net Change in Fund Balance</i>	(3,198,462)	(5,622,259)	(4,480,494)	1,141,765
<i>Fund Balance Beginning of Year</i>	6,406,039	6,406,039	6,406,039	0
Prior Year Encumbrances Appropriated	2,423,994	2,423,994	2,423,994	0
<i>Fund Balance End of Year</i>	<u>\$ 5,631,571</u>	<u>\$ 3,207,774</u>	<u>\$ 4,349,539</u>	<u>\$ 1,141,765</u>

See accompanying notes to the basic financial statements.

**Canton City School District**  
**Stark County, Ohio**  
*Statement of Fund Net Position*  
*Proprietary Funds*  
*June 30, 2015*

	Governmental Activities - Internal Service Funds
<b>Assets</b>	
<i>Current Assets</i>	
Equity in Pooled Cash and Investments	\$ 544,493
<b>Liabilities</b>	
<i>Current Liabilities</i>	
Accounts Payable	269,963
Accrued Wages and Benefits	793
Intergovernmental Payable	157,469
Claims Payable	479,413
<i>Total Current Liabilities</i>	907,638
<b>Net Position</b>	
Unrestricted	\$ (363,145)

See accompanying notes to the basic financial statements.

**Canton City School District**  
**Stark County, Ohio**  
*Statement of Revenues, Expenses, and Changes in Fund Net Position*  
*Proprietary Funds*  
*For the Fiscal Year Ended June 30, 2015*

	<u>Governmental Activities - Internal Service Funds</u>
<b>Operating Revenues</b>	
Charges for Services	<u>\$ 714,410</u>
<b>Operating Expenses</b>	
Salaries and Wages	23,707
Fringe Benefits	10,808
Purchased Services	422,993
Materials and supplies	135,441
Claims	454,773
<i>Total Operating Expenses</i>	<u>1,047,722</u>
<i>Operating Loss</i>	<u>(333,312)</u>
<b>Non-Operating Revenues</b>	
Interest	<u>3,471</u>
<i>Change in Net Position</i>	(329,841)
<i>Net Position Beginning of Year</i>	<u>(33,304)</u>
<i>Net Position End of Year</i>	<u><u>\$ (363,145)</u></u>

See accompanying notes to the basic financial statements.

**Canton City School District**  
**Stark County, Ohio**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Fiscal Year Ended June 30, 2015

	<u>Governmental Activities - Internal Service Funds</u>
<b>Cash Flows From Operating Activities</b>	
Cash Received from Customers	\$ 714,410
Cash Paid for Goods and Services	(293,022)
Cash Paid to Employees for Services and Benefits	(31,204)
Cash Paid for Claims	(158,148)
<i>Net Cash Provided By Operating Activities</i>	<u>232,036</u>
 <b>Cash Flows From Investing Activities</b>	
Interest on Investments	<u>3,471</u>
 <i>Net Increase in Cash and Investments</i>	235,507
 <i>Cash and Investments, Beginning of Year</i>	<u>308,986</u>
 <i>Cash and Investments, End of Year</i>	<u>\$ 544,493</u>
 <b>Reconciliation of Operating Loss to Net Cash Provided By Operating Activities</b>	
Operating Loss	\$ (333,312)
Adjustments:	
Increase (Decrease) in Liabilities:	
Accounts Payable	265,412
Accrued Wages and Benefits	793
Intergovernmental Payable	7,611
Claims Payable	296,625
Compensated Absences Payable	(5,093)
<i>Total Adjustments</i>	<u>565,348</u>
<i>Net Cash Provided By Operating Activities</i>	<u>\$ 232,036</u>

See accompanying notes to the basic financial statements.

**Canton City School District**  
**Stark County, Ohio**  
*Statement of Fiduciary Net Position*  
*Fiduciary Funds*  
*June 30, 2015*

	Private Purpose Trust	Agency
<b>Assets</b>		
Equity in Pooled Cash and Investments	\$ 110,309	\$ 246,466
<b>Liabilities</b>		
Accounts Payable	0	\$ 28,824
Intergovernmental Payable	0	150
Due to Students	0	217,492
<i>Total Liabilities</i>	0	\$ 246,466
<b>Net Position</b>		
Held in Trust for Scholarships	\$ 110,309	

See accompanying notes to the basic financial statements.

**Canton City School District**  
**Stark County, Ohio**  
*Statement of Changes in Fiduciary Net Position*  
*Private Purpose Trust Fund*  
*For the Fiscal Year Ended June 30, 2015*

	Private Purpose Trust
<b>Additions</b>	
Miscellaneous	\$ 10,718
Gifts and Contributions	6,669
Investment Earnings	3,020
<i>Total Additions</i>	20,407
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	24,478
<i>Change in Net Position</i>	(4,071)
<i>Net Position Beginning of Year</i>	114,380
<i>Net Position End of Year</i>	\$ 110,309

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, 2015*

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

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

*Reporting Entity*

The reporting entity has been defined in accordance with GASB Statement No. 14, *The Financial Reporting Entity* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service, and student related activities of the School District.

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

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

**JOINTLY GOVERNED ORGANIZATION**

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

**Canton City School District**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**PUBLIC ENTITY RISK POOL**

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

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

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

***A. Fund Accounting***

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

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

The following are the School District’s major governmental funds:

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

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

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

**Canton City School District**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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

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

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

***B. Basis of Presentation***

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

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

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

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

**Canton City School District**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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

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

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

***C. Basis of Accounting***

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

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

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

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

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

**Canton City School District**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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***Deferred Inflows of Resources and Deferred Outflows of Resources*** - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 13.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue may include delinquent property taxes, intergovernmental grants, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 13).

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

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

***D. Budgets***

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

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

**Canton City School District**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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

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

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

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

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

***E. Cash and Investments***

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

**Canton City School District**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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During fiscal year 2015, investments were limited to federal agency securities, repurchase agreements, U.S. money market mutual funds and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2015.

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 2015 amounted to \$55,041, which includes \$19,327 assigned from other School District funds. Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

***F. Inventory***

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

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

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

***G. Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000 for its general capital assets.

The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**Canton City School District**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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

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

***H. Interfund Balances***

Short-term interfund loans used to cover negative cash balances in funds are classified as “Interfund Receivables/Payables.” These amounts are eliminated in the governmental column of the Statement of Net Position.

Long-term interfund loans (advances) are classified as “advances from other funds” and “advances to other funds.” These amounts are eliminated in the governmental column of the Statement of Net Position.

***I. Compensated Absences***

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

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2015 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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



**Canton City School District**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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

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

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

***K. Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

***L. Fund Balance***

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

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

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

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

**Canton City School District**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**Assigned** Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes, but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

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

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

***M. Net Position***

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

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

***N. Parochial Schools***

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

**Canton City School District**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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***O. Estimates***

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

***P. Restricted Assets***

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

***Q. Operating Revenues and Expenses***

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

***R. 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.

***S. 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 2015, the School District did not have extraordinary or special items.

***T. Bond Premiums***

Bond premiums are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds. On the governmental fund financial statements, bond premiums are recognized in the year of issuance.

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***U. Implementation of New Accounting Principle***

For the fiscal year ended June 30, 2015, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*.

GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 68 resulted in the inclusion of net pension liability and pension expense components on the full-accrual financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 69 addresses accounting and financial reporting for government combinations (including mergers, acquisitions and transfers of operations) and disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the School District.

GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. See below for the effect on net position as previously reported.

*Restatement of Net Position*

The School District hired a firm to conduct an appraisal of its capital assets. The re-valuation, restatement of fund balance and implementation of GASB Statements No. 68 and 71 had the following effect on net position as previously reported:

	Governmental Activities
Net Position June 30, 2014	\$ 162,564,761
Asset Valuation - Depreciable Capital Assets	(62,357,201)
Asset Valuation - Accumulated Depreciation	15,133,064
Subtotal	115,340,624
GASB 68/71 Adjustments:	
Net Pension Liability	(185,938,766)
Deferred Outflow - Payments Subsequent to Measurement Date	9,644,876
Restated Net Position, July 1, 2014	\$ (60,953,266)

Other than employer contributions subsequent to the measurement date, the School District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

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*Restatement of Fund Balance*

The School District restated fund balances to correct prior year errors and credit the proper funds for Tangible Personal Property Tax Loss Reimbursements and State Equalization for Classroom Facilities Maintenance.

	General	Debt Service Fund	Other Governmental Funds	Total
Fund Balance (Deficit), June 30, 2014	\$ (1,838,530)	\$ 3,493,580	\$ 12,895,466	\$ 14,550,516
Tangible Personal Property Tax Loss Reimbursement	(1,343,906)	1,343,906	0	0
State Equalization for Classroom Facilities Maintenance	(2,233,116)	0	2,233,116	0
Restated Fund Balance (Deficit), June 30, 2014	<u>\$ (5,415,552)</u>	<u>\$ 4,837,486</u>	<u>\$ 15,128,582</u>	<u>\$ 14,550,516</u>

**NOTE 3 – ACCOUNTABILITY AND COMPLIANCE**

***A. Accountability***

The following funds had a deficit fund balance as of June 30, 2015:

	Deficit
Major Fund:	
General	\$ 7,388,171
Non-major Special Revenue Funds:	
Alternative School	17,035
Race to the Top	4,025
Title III	7,377
Carl Perkins Grant	67,269
Title I	492,902
Improving Teacher Quality	82,523

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

***B. Non-Compliance***

Contrary to Ohio Rev. Code section 3318.18(E), the School District credited Half Mill-Equalization payments from the State of Ohio to the general fund in fiscal years 2009 – 2015 instead of the classroom facilities maintenance fund. The error was identified in fiscal year 2016 and adjustments are reflected in the financial statements to correct the error. The error for the 2015 amount was corrected and is properly reflected in the financial statements. The errors for 2009 – 2014 amounts will be repaid over a five year period beginning in fiscal year 2016 as described in Note 5-C.

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Contrary to Ohio Rev. Code section 5705.10(B), the School District credited Tangible Personal Property Tax Loss Reimbursement payments from the State of Ohio to the general fund in fiscal years 2006 – 2015. The error was identified in fiscal year 2016 and adjustments are reflected in the financial statements to correct the error. The errors for the 2015 amounts were corrected and are properly reflected in the financial statements. The errors for 2006 – 2014 will be repaid over a five year period beginning in fiscal year 2016 as described in Note 5-C.

Contrary to Ohio Rev. Code section 5705.39, appropriations exceeded estimated resources in the debt service fund by \$8,716,935. The 2015 bond refunding in the Debt Service Fund was not certified to the County Budget Commission as estimated resources in accordance with Ohio Rev. Code.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts. Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts. Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

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5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio) and STAR Plus;

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

8. Under limited circumstances, corporate note interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within 5 years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During fiscal year 2015, the School District and public depositories complied with the provisions of these statutes.

***A. Cash and Investments with Escrow Agent***

At fiscal year-end, \$1,794,302 was invested with an escrow agent for required sinking fund deposits relating to the School District's energy conservation bonds. These funds are not included in "deposits with financial institutions" or "investments" below.

***B. Deposits with Financial Institutions***

At June 30, 2015, the carrying amount of all School District deposits was \$4,178,541 exclusive of the \$3,535,000 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2015, \$3,862,930 of the School District's bank balance of \$4,383,851 was exposed to custodial risk as discussed below, while \$520,921 was covered by the FDIC.

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**C. Investments**

As of June 30, 2015, the School District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities		
		6 Months or Less	18 to 24 Months	More Than 24 Months
Federal Farm Credit				
Bank (FFCB) Notes	\$ 2,528,132	\$ 1,000,431	\$ 0	\$ 1,527,701
Federal National Mortgage				
Association (FNMA) Notes	2,972,869	0	0	2,972,869
Federal Home Loan Bank (FHLB) Notes	4,128,185	1,001,034	499,734	2,627,417
Federal Home Loan Mortgage				
(FHLM) Notes	2,352,492	0	0	2,352,492
U.S. Government Money Market	1,012	1,012	0	0
Repurchase Agreements	3,535,000	3,535,000	0	0
STAR Ohio	5,606,262	5,606,262	0	0
Total Investments	<u>\$ 21,123,952</u>	<u>\$ 11,143,739</u>	<u>\$ 499,734</u>	<u>\$ 9,480,479</u>

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

**Interest Rate Risk** As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within one year from the date of purchase and that the School District's investment portfolio be structured so that the securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

**Credit Risk** The federal agency securities, federal agency securities underlying the School District's repurchase agreement, U.S. Government money market mutual fund and the U.S. treasury notes were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2015, is 53 days and carries a rating of AAAM by Standard and Poor's. The School District has no investment policy dealing with investment credit risk beyond the requirements in state statutes.



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**Concentration of Credit Risk** The School District places no limit on the amount the School District may invest in any one issuer. The following table includes the percentage to total of each investment type held by the School District at June 30, 2015:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
Federal Farm Credit		
Bank (FFCB) Notes	\$ 2,528,132	12%
Federal National Mortgage		
Association (FNMA) Notes	2,972,869	14%
Federal Home Loan Bank (FHLB) Notes	4,128,185	19%
Federal Home Loan Mortgage		
(FHLM) Notes	2,352,492	11%
U.S. Government Money Market	1,012	0%
Repurchase Agreements	3,535,000	17%
STAR Ohio	5,606,262	27%
Total	<u>\$ 21,123,952</u>	<u>100%</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

**A. Interfund Transfers**

During the fiscal year, the general fund transferred \$486,121 to the debt service fund for the payment of debt, \$455,000 to the athletic fund and \$17 to the adult basic education fund to provide additional resources for current operations. Interfund transfers between governmental funds are eliminated in the statement of activities.

**B. Interfund Receivable/Payable**

Interfund balances at June 30, 2015 consist of a \$90,336 payable from the other governmental funds to the general fund. The primary purpose of the interfund balance is to cover costs in the fund where revenues were not received by June 30. This interfund balance will be repaid once the anticipated revenues are received. These advances are expected to be repaid within one year. Interfund loans between governmental activities are eliminated on the statement of net position.

**C. Advances to/from Other Funds**

Long-term advances outstanding at June 30, 2015 represents \$1,343,906 and \$2,233,116 owed to the debt service and classroom facilities maintenance funds, respectively, by the general fund. These advances were approved by the Board of Education to be repaid in equal installments over the next five years. See Note 3-B for further details.

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**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2015 represents collections of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed value listed as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2015 represents collections of calendar year 2014 taxes. Public utility real and tangible personal property taxes received in calendar year 2015 became a lien December 31, 2013, were levied after April 1, 2014 and are collected in 2015 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Stark County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2015, are available to finance fiscal year 2015 operations. The amount available as an advance at June 30, 2015 in the general, bond retirement and permanent improvement funds was \$1,252,842, \$269,582, and \$52,080, respectively. The amount available for advance at June 30, 2014, in the general, bond retirement and permanent improvement funds was \$1,061,542, \$158,773, and \$44,362, respectively. 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, 2015 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources.

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

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The assessed values upon which the fiscal year 2015 taxes were collected are:

	2014 Second- Half Collections		2015 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$ 499,116,480	91%	\$ 498,040,210	90%
Public Utility Personal Property	50,456,930	9%	53,201,620	10%
Total	\$ 549,573,410	100%	\$ 551,241,830	100%
Full Tax Rate per \$1,000 of assessed valuation	\$ 77.90		\$ 80.90	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2015 consisted of property taxes, interfund and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables, except property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

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**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Restated Balance 6/30/2014	Additions	Reductions	Balance 6/30/2015
<b>Governmental Activities</b>				
<i>Capital Assets, not Being Depreciated</i>				
Land	\$ 5,916,100	\$ 0	\$ 0	\$ 5,916,100
<i>Capital Assets, Being Depreciated</i>				
Land Improvements	2,028,874	0	0	2,028,874
Buildings/Improvements	188,803,507	0	0	188,803,507
Furniture/Equipment	412,910	1,274,886	0	1,687,796
Vehicles	4,370,934	1,891,080	0	6,262,014
<i>Total Capital Assets, Being Depreciated</i>	<u>195,616,225</u>	<u>3,165,966</u>	<u>0</u>	<u>198,782,191</u>
Less: Accumulated Depreciation				
Land Improvements	(1,299,697)	(91,664)		(1,391,361)
Buildings/Improvements	(68,190,630)	(4,590,387)		(72,781,017)
Furniture/Equipment	(368,430)	(68,528)	0	(436,958)
Vehicles	(3,376,107)	(365,592)	0	(3,741,699)
<i>Total Accumulated Depreciation</i>	<u>(73,234,864)</u>	<u>(5,116,171) *</u>	<u>0</u>	<u>(78,351,035)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>122,381,361</u>	<u>(1,950,205)</u>	<u>0</u>	<u>120,431,156</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$128,297,461</u>	<u>\$ (1,950,205)</u>	<u>\$ 0</u>	<u>\$ 126,347,256</u>

\*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 2,497,145
Special	827,254
Vocational	20,358
Support Services:	
Pupil	114,110
Instructional Staff	215,122
Administration	186,575
Fiscal	1,100
Operation and Maintenance of Plant	280,159
Pupil Transportation	365,323
Operation of Non-Instructional Services	
Food Service Operations	395,105
Extracurricular Activities	<u>213,920</u>
<i>Total Depreciation</i>	<u>\$ 5,116,171</u>

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

In prior fiscal years, the School District entered into capital lease agreements for the acquisition of a stadium scoreboard and various stadium improvements. A new lease was entered into with Huntington during fiscal year 2015 for 15 new buses. These leases meet the criteria of a capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements.

Governmental activities capital assets consisting of stadium scoreboard, stadium improvements and buses have been capitalized in the amount of \$3,567,520. This amount represents the present value of the future minimum lease payments at the time of acquisition. A corresponding liability is recorded on the statement of net position. Principal and interest payments in the 2015 fiscal year totaled \$372,153 and \$33,837, respectively. These amounts are reported as debt service payments of the general fund, the permanent improvement fund (a non-major governmental fund) and the Wells/Fawcett Stadium Trust Fund (a non-major governmental fund).

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2015 follows:

		Governmental Activities
		Capital Leases
Fiscal year ending June 30,	2016	\$ 405,990
	2017	405,990
	2018	405,990
	2019	52,623
	2020	52,623
	2021	52,623
Minimum lease payments		1,375,839
Less: amount representing interest at the School's incremental borrowing rate of interest		(60,444)
Present value of net minimum lease payments		\$ 1,315,395

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**NOTE 10 - LONG-TERM OBLIGATIONS**

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

	Restated Outstanding 6/30/2014	Additions	Reductions	Outstanding 6/30/2015	Amounts Due in One Year
<b>Governmental Activities:</b>					
<i>General Obligation Bonds</i>					
Current Interest - 2013	\$ 14,350,000	\$ 0	\$ (5,000)	\$ 14,345,000	\$ 2,145,000
Unamortized Bond Premium	1,547,457	0	(241,162)	1,306,295	0
Current Interest - 2005	11,075,000	0	(11,075,000)	0	0
Unamortized Bond Premium	632,170	0	(632,170)	0	0
QZAB's	2,100,000	0	(2,100,000)	0	0
Serial Bonds, Series 2015, \$8,950,000 @ 3.2%	0	8,950,000	0	8,950,000	5,000
Unamortized Bond Premium	0	426,647	(10,419)	416,228	0
<i>Total General Obligation Bonds</i>	<u>29,704,627</u>	<u>9,376,647</u>	<u>(14,063,751)</u>	<u>25,017,523</u>	<u>2,150,000</u>
<i>Energy Conservation Bonds</i>	6,728,636	0	0	6,728,636	0
<i>Net Pension Liability</i>					
STRS	154,081,812	0	(24,731,024)	129,350,788	0
SERS	31,856,954	0	(4,744,976)	27,111,978	0
<i>Total Net Pension Liability</i>	<u>185,938,766</u>	<u>0</u>	<u>(29,476,000)</u>	<u>156,462,766</u>	<u>0</u>
Healthcare Reimbursement Arrangement Payable	2,854,175	0	(410,882)	2,443,293	617,503
Capital Leases Payable	328,788	1,358,760	(372,153)	1,315,395	375,623
Compensated Absences	4,428,457	504,322	(733,238)	4,199,541	1,160,524
<i>Total Governmental Activities</i>					
<i>Long-Term Liabilities</i>	<u>\$ 229,983,449</u>	<u>\$ 11,239,729</u>	<u>\$ (45,056,024)</u>	<u>\$ 196,167,154</u>	<u>\$ 4,303,650</u>

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

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

*Series 2005 General Obligation Refunding Bonds* On April 5, 2005, the School District issued Series 2005 general obligation refunding bonds to advance refund \$28,325,961 of the Series 2000 current interest bonds. The issuance proceeds were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position.

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On May 8, 2013, the School District issued \$14,585,000 (Series 2013 Advance Refunding General Obligation Bonds) to advance refund the callable portion of the bonds. The refunded portions of the series 2005 bonds included portions of the serial bonds and the entire amount of the term bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position. Interest payments on the current interest bonds are due on June 1 and December 1 each year. The balance of this bond was refunded during fiscal year 2015.

*Series 2013 General Obligation Refunding Bonds* On May 8, 2013, the School District issued Series 2013 general obligation refunding bonds to advance refund \$14,600,000 of the Series 2005 current interest bonds. The issuance proceeds were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position. The principal balance outstanding of the defeased bonds was \$14,600,000 at June 30, 2015.

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

The reacquisition price exceeded the net carrying amount of the old debt by \$1,517,000. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. This advance refunding was undertaken to reduce total debt service payments over the next 8 years by \$687,000 and resulted in an economic gain of \$643,000.

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

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

Fiscal Year	Series 2013 Current Interest Bonds		
	Principal	Interest	Total
2016	\$ 2,145,000	\$ 574,700	\$ 2,719,700
2017	2,235,000	479,872	2,714,872
2018	2,335,000	380,932	2,715,932
2019	2,440,000	277,552	2,717,552
2020	2,540,000	169,736	2,709,736
2021	2,650,000	57,373	2,707,373
	\$ 14,345,000	\$ 1,940,165	\$ 16,285,165

*Series 2001 Qualified Zone Academy Bonds* During the fiscal year 2001, the School District issued a total of \$16.1 million in Classroom Facilities Improvement Bonds, Qualified Zone Academy Bonds (QZAB). The total proceeds were comprised of two separate issues; one of QZAB Series 2000 bonds in the amount of \$14,000,000 and one of QZAB Series 2001 bonds in the amount of \$2,100,000. The QZAB Series 2000 bonds matured on November 29, 2013. The QZAB Series 2001 were paid in full during fiscal year 2015.

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*Series 2015 General Obligation Refunding Bonds* On April 14, 2015 the School District issued Series 2015 general obligation refunding bonds in the amount of \$9,005,000 to refund the Series 2005 current interest bonds. The issuance proceeds were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position. The principal balance outstanding of the defeased bonds was \$9,005,000 at June 30, 2015.

The refunding issue is comprised of serial bonds, par value \$8,950,000. The average interest rate on the current interest bonds is 5.00 percent.

These refunding bonds were issued with a premium of \$426,647, which was recorded as revenue. The issuance resulted in a difference between the cash flows required to service the old debt and the cash flows required to service the new debt of \$1,484,599. The issuance resulted in an economic gain of \$1,347,934.

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

The following is a summary of the future debt service requirements to maturity for the Series 2015 general obligation refunding bonds:

Fiscal Year	<u>Principal</u>	<u>Interest</u>
2016	\$ 5,000	\$ 180,591
2017	5,000	286,240
2018	5,000	286,080
2019	5,000	285,920
2020	5,000	285,760
2021-2023	<u>8,925,000</u>	<u>862,560</u>
	<u>\$ 8,950,000</u>	<u>\$ 2,187,151</u>

*Energy Conservation Bonds* On December 14, 2010, the School District issued \$6,728,636 in energy conservation bonds (federally taxable qualified school construction bonds). The proceeds of these bonds were used for building improvements intended to increase the energy efficiency of the School District's buildings. These bonds bear an annual interest rate of 5.43 percent, mature on December 1, 2025 and will be paid from the debt service fund. The School District is required to make mandatory sinking fund deposits (consisting of cash and/or U.S. Treasury obligations) on December 1, in the following years and in the following amounts (in each case equal to the value of any cash deposits, plus the stated principal value at maturity of any U.S. Treasury obligations plus any interest to be paid thereon through and including the maturity date):



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December 1 of year	Amount Due	Amount Deposited
2011	\$ 448,576	\$ 448,576
2012	448,575	448,575
2013	448,575	448,575
2014	448,575	448,576
2015	448,575	0
2016	448,576	0
2017	448,576	0
2018	448,576	0
2019	448,576	0
2020	448,576	0
2021	448,576	0
2022	448,576	0
2023	448,576	0
2024	448,576	0
2025	448,576	0
	<u>\$ 6,728,636</u>	<u>\$ 1,794,302</u>

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

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

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

December 1 of year	Energy Conservation Bond		
	Principal	Interest	Total
2016	\$ 0	\$ 365,365	\$ 365,365
2017	0	365,365	365,365
2018	0	365,365	365,365
2019	0	365,365	365,365
2020	0	365,365	365,365
2021-2025	0	1,826,825	1,826,825
2026	6,728,636	182,682	6,911,318
	<u>\$ 6,728,636</u>	<u>\$ 3,836,332</u>	<u>\$ 10,564,968</u>

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

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In addition to severance payments, employees electing to retire under the RIP are entitled to a health care reimbursement arrangement (HRA) established by the School District for the benefit of the retiring teachers and their spouses. Under the HRA, retiring teachers will receive payments, by year, in varying amounts between \$500 to \$5,300 which will be deposited by the School District into a separate account established for the retired employee and their spouse. The HRA is effective until January 15, 2016 or until the retiree and his or her spouse become deceased. The amounts deposited to a retiree's account may be carried forward over to subsequent years and shall not be subject to forfeiture, except upon the death of both the retiree and his or her spouse. The remainder of the liability has been recorded on the government-wide statement of net position as a component of "long-term liabilities." The total estimated liability under the HRA at June 30, 2015 was \$2,443,293 of which \$617,503 is expected to become due within one year. A total of 197 employees have retired under the HRA as of June 30, 2015. The total HRA liability was calculated based upon required payments under the HRA for each applicable employee.

*Legal Debt Margin* The Ohio Revised Code provides that voted net general obligation debt of the School District shall never exceed 9 percent of the total assessed valuation of the School District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the School District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1 percent of the property valuation of the School District. The assessed valuation used in determining the School District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the School District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2015 are a voted debt margin of \$30,073,195 (including available funds of \$3,761,430) and an unvoted debt margin of \$551,242.

#### **NOTE 11 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

##### ***A. Comprehensive***

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

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Coverage	Limits of Coverage	Deductible
General Liability:		
Each occurrence	\$ 1,000,000	\$ 0
Aggregate	2,000,000	0
Building and contents	426,333,727	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 2014.

***B. Shared Risk Pool***

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

***C. Workers’ Compensation Program***

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

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

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	Balance at Beginning of Year	Claims	Payments	Balance at End of Year
2014	\$ 354,793	\$ 87,934	\$ 259,939	\$ 182,788
2015	\$ 182,788	\$ 454,773	\$ 158,148	\$ 479,413

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 – DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

***Plan Description - School Employees Retirement System (SERS)***

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$2,383,793 for fiscal year 2015. Of this amount \$461,714 is reported as an intergovernmental payable.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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.

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The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$7,776,412 for fiscal year 2015. Of this amount \$1,270,519 is reported as an intergovernmental payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 129,350,788	\$ 27,111,978	\$ 156,462,766
Proportion of the Net Pension Liability	0.53179434%	0.53571000%	
Pension Expense	\$ 5,113,955	\$ 1,909,623	\$ 7,023,578

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At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	STRS	SERS	Total
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 1,245,282	\$ 230,752	\$ 1,476,034
School District contributions subsequent to the measurement date	7,776,412	2,383,793	10,160,205
Total Deferred Outflows of Resources	\$ 9,021,694	\$ 2,614,545	\$ 11,636,239
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 23,930,386	\$ 4,400,350	\$ 28,330,736

\$10,160,205 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2016	\$ (5,671,276)	\$ (1,042,400)	\$ (6,713,676)
2017	(5,671,276)	(1,042,400)	(6,713,676)
2018	(5,671,276)	(1,042,400)	(6,713,676)
2019	(5,671,276)	(1,042,398)	(6,713,674)
Total	\$ (22,685,104)	\$ (4,169,598)	\$ (26,854,702)

**Actuarial Assumptions - SERS**

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.



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Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

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**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 38,680,736	\$ 27,111,978	\$ 17,381,653

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

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Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
<b>Total</b>	<b>100.00 %</b>	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 185,179,756	\$ 129,350,788	\$ 82,138,267

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

**Health Care Plan Description** - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**Canton City School District**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2015, 2014, and 2013 were \$421,212, \$274,728 and \$237,593, respectively. For fiscal year 2015, 82 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2014 and 2013.

***B. State Teachers Retirement System***

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$550,760, and \$540,486, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

**Canton City School District**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non GAAP Basis) and Actual - general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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

<b>Net Change in Fund Balance</b>	
GAAP Basis	\$ (1,972,619)
Net Adjustment for Revenue Accruals	(1,506,521)
Net Adjustment for Expenditure Accruals	665,867
Funds Budgeted Elsewhere **	224,747
Adjustment for Encumbrances	<u>(1,891,968)</u>
Budget Basis	<u>\$ (4,480,494)</u>

\*\* As part of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the special trust, rotary, adult education, recreation and public school support funds.

**NOTE 16 - SET-ASIDES**

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

**Canton City School District**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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

	Capital Improvements
Set-aside Restricted Balance as of June 30, 2014	\$ 0
Current Year Set-aside Requirement	1,553,768
Current Year Offsets	(1,107,433)
Prior Year Offset from Bond Proceeds	(446,335)
Totals	\$ 0
Balance Carried Forward to Fiscal Year 2016	\$ 0
Set-aside Restricted Balance as of June 30, 2015	\$ 0

During fiscal year 2001, the School District issued \$46,705,413 in capital related school improvement bonds. During fiscal year 2011, the School District issued \$6,728,636 in capital related energy conservation bonds. These proceeds may be used to reduce the capital improvements set-aside to zero for future years. The School District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$40,002,477 at June 30, 2015.

**NOTE 17 - FISCAL CAUTION**

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

**NOTE 18 – CONTINGENCIES AND COMMITMENTS**

***A. Grants***

The School District receives significant financial assistance from numerous Federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds; however, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the School District at June 30, 2015.

***B. Litigation***

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

**Canton City School District**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

**C. School District Funding**

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School District.

**D. Encumbrances**

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

Fund	Amount
General	\$ 1,234,796
Debt Service	14,467
Nonmajor Governmental	738,880
	\$ 1,988,143

**NOTE 19 - FUND BALANCE**

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

	General	Debt Service Fund	Other Governmental Funds	Total
Nonspendable for:				
Materials and Supplies Inventory	\$ 102,895	\$ 0	\$ 17,004	\$ 119,899
Restricted for:				
Debt Service	0	5,163,767	0	5,163,767
Capital Outlay	0	0	5,530,891	5,530,891
Facilities Maintenance	0	0	4,864,777	4,864,777
Food Service Operations	0	0	4,893,869	4,893,869
Other Purposes	0	0	1,728,941	1,728,941
Total Restricted	0	5,163,767	17,018,478	22,182,245
Unassigned	(7,491,066)	0	(671,131)	(8,162,197)
<i>Total Fund Balance (Deficit)</i>	<i>\$ (7,388,171)</i>	<i>\$ 5,163,767</i>	<i>\$ 16,364,351</i>	<i>\$ 14,139,947</i>

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**Canton City School District**  
**Stark County, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*Last Two Fiscal Years (1)*

	<u>2014</u>	<u>2013</u>
<b><i>State Teachers Retirement System (STRS)</i></b>		
School District's proportion of the net pension liability	0.53179434%	0.53179434%
School District's proportionate share of the net pension liability	\$ 129,350,788	\$ 154,081,812
School District's covered-employee payroll	\$ 55,075,962	\$ 54,048,638
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	234.86%	285.08%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%
<b><i>School Employees Retirement System (SERS)</i></b>		
School District's proportion of the net pension liability	0.53571000%	0.53571000%
School District's proportionate share of the net pension liability	\$ 27,111,978	\$ 31,856,954
School District's covered-employee payroll	\$ 17,929,300	\$ 14,267,919
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	151.22%	223.28%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date.

**Canton City School District**  
**Stark County, Ohio**  
*Required Supplementary Information*  
*Schedule of School District Contributions*  
*Last Ten Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b><i>State Teachers Retirement System (STRS)</i></b>				
Contractually Required Contribution	\$ 7,776,412	\$ 7,159,875	\$ 7,026,323	\$ 7,085,000
Contributions in Relation to the Contractually Required Contribution	<u>(7,776,412)</u>	<u>(7,159,875)</u>	<u>(7,026,323)</u>	<u>(7,085,000)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's covered-employee payroll	\$ 55,545,800	\$ 55,075,962	\$ 54,048,638	\$ 54,500,000
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%
 <b><i>School Employees Retirement System (SERS)</i></b>				
Contractually required contribution	\$ 2,383,793	\$ 2,485,001	\$ 1,974,680	\$ 1,912,000
Contributions in relation to the contractually required contribution	<u>(2,383,793)</u>	<u>(2,485,001)</u>	<u>(1,974,680)</u>	<u>(1,912,000)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's covered-employee payroll	\$ 18,086,442	\$ 17,929,300	\$ 14,267,919	\$ 14,215,613
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%

n/a - Information prior to 2008 is not available.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 7,216,000	\$ 7,140,000	\$ 7,364,000	\$ 6,895,000	\$ 7,159,000	\$ 7,113,000
<u>(7,216,000)</u>	<u>(7,140,000)</u>	<u>(7,364,000)</u>	<u>(6,895,000)</u>	<u>(7,159,000)</u>	<u>(7,113,000)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 55,507,692	\$ 54,923,077	\$ 56,646,154	\$ 53,038,462	\$ 55,069,231	\$ 54,715,385
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$ 1,787,000	\$ 2,007,000	\$ 1,450,000	\$ 1,383,000	n/a	n/a
<u>(1,787,000)</u>	<u>(2,007,000)</u>	<u>(1,450,000)</u>	<u>(1,383,000)</u>	n/a	n/a
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	n/a	n/a
\$ 14,216,388	\$ 14,822,747	\$ 14,735,772	\$ 14,083,503	n/a	n/a
12.57%	13.54%	9.84%	9.82%	n/a	n/a

April 26, 2016

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

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Canton City School District, Stark County, Ohio (the "School District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated April 26, 2016, in which we noted the School District restated net position balances to account for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Net position balances were also restated due to the School District having a reappraisal done on capital assets as well as other audit adjustments that corrected cash receipting errors in prior years.

**Internal Control over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as finding 2015-001 in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as finding 2015-002 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-003 through 2015-005.

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

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

### **Purpose of this Report**

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

*Hea & Associates, Inc.*

Medina, Ohio

April 26, 2016

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

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

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

We have audited the Canton City School District's, Stark County, Ohio (the "School District") compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2015. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School District's compliance.

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

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

**Report on Internal Control Over Compliance**

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

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

*Hea & Associates, Inc.*

Medina, Ohio

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

<b>Federal Grantor/ Sub Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Grant Year</b>	<b>Receipts</b>	<b>Expenditures</b>
<b><u>U.S. Department of Education</u></b>				
(Direct)				
Impact Aid	84.041	2015	\$18,146	\$34,705
Student Financial Assistance Cluster:				
Federal Pell Grant Program	84.063	2015	391,626	391,626
Federal Direct Student Loans	84.268	2015	<u>608,302</u>	<u>608,302</u>
<i>Total Student Financial Assistance Cluster</i>			999,928	999,928
(Passed through the Ohio Department of Education)				
ABLE Instructional Adult Education - Basic Grants to States	84.002	2014	33,770	51,348
		2015	621,465	573,911
EL/Civics Adult Education - Basic Grants to States		2014	2,516	(3,927)
		2015	<u>10,481</u>	<u>23,377</u>
<i>Total Adult Education - Basic Grants to States</i>			668,232	644,709
Title I Grants to Local Educational Agencies	84.010	2014	1,208,344	991,198
		2015	6,023,674	5,505,807
Title I School Improvement		2014	244,248	155,401
		2015	540,699	457,492
Title I-D		2014	1,818	2,272
		2015	<u>3,059</u>	<u>2,231</u>
<i>Total Title I Grants to Local Educational Agencies</i>			8,021,842	7,114,401
Special Education Cluster:				
Special Education Grants to States	84.027	2012	0	7
		2014	660,265	757,255
		2015	2,268,685	1,955,618
Parent Mentor Grant		2015	<u>21,814</u>	<u>24,177</u>
<i>Total Special Education Grants to States</i>			2,950,764	2,737,057
Special Education Preschool Grants	84.173	2013	0	(1,199)
		2014	21,347	25,167
		2015	<u>97,143</u>	<u>84,632</u>
<i>Total Special Education Preschool Grants</i>			<u>118,490</u>	<u>108,600</u>
<i>Total Special Education Cluster</i>			3,069,254	2,845,657

CONTINUED



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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

<b>Federal Grantor/ Sub Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Grant Year</b>	<b>Receipts</b>	<b>Expenditures</b>
Career and Technical Education - Basic Grants to States	84.048	2014	\$50,793	\$64,063
		2015	288,719	304,396
<i>Total Career and Technical Education - Basic Grants to States</i>			339,512	368,459
Education for Homeless Children and Youth	84.196	2014	25,514	23,280
		2015	120,966	114,646
<i>Total Education for Homeless Children and Youth</i>			146,480	137,926
Twenty-First Century Community Learning Centers	84.287	2014	37,524	39,004
Improving Teacher Quality State Grants	84.367	2014	207,804	134,855
		2015	1,206,063	1,124,626
<i>Total Improving Teacher Quality State Grants</i>			1,413,867	1,259,481
ARRA - Race-to-the Top Incentive Grants, Recovery Act	84.395	2014	27,590	2,283
		2015	0	1,125
<i>Total Race-to-the Top</i>			27,590	3,408
(Passed through the National Council for Community and Education Partnership)				
English Language Acquisition State Grants	84.365	2014	10,047	1,493
		2015	14,677	11,962
<i>Total English Language Acquisition State Grants</i>			24,724	13,455
<b>Total U.S. Department of Education</b>			<b>14,767,099</b>	<b>13,461,133</b>

CONTINUED

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

<b>Federal Grantor/ Sub Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Grant Year</b>	<b>Receipts</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>				
(Passed through the Ohio Department of Education)				
State Administrative Expenses for Child Nutrition	10.560	2015	\$8,400	\$8,400
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution)				
National School Lunch Program	10.555	2015	343,567	343,567
Cash Assistance				
School Breakfast Program	10.553	2015	1,249,774	1,249,774
National School Lunch Program	10.555	2015	<u>3,376,443</u>	<u>3,376,443</u>
<i>Total Child Nutrition Cluster</i>			<u>4,969,784</u>	<u>4,969,784</u>
<b>Total U.S. Department of Agriculture</b>			<u>4,978,184</u>	<u>4,978,184</u>
<b>Total</b>			<u>\$19,745,283</u>	<u>\$18,439,317</u>

The accompanying notes are an integral part of this schedule.

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

*Notes to the Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2015*

**Note A - Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Canton City School District, Stark County, Ohio (the "School District") and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of financial statements.

**Note B - Child Nutrition Cluster**

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

**Note C - Food Donation Program**

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

**Note D - Federal Direct Student Loan Program**

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

Federal Subsidized Loans	\$231,355
Federal Unsubsidized Loans	375,031
Federal Plus Loans	<u>1,916</u>
Total Federal Direct Student Loans	<u>\$608,302</u>

**Note E - Transfers**

The School District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30th and spent by September 30th). However, with the Ohio Department of Education's ("ODE") approval, a School District can transfer unspent Federal assistance to the succeeding year, thus allowing the School District a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year's activity, and transferring the amounts ODE approves between the cost centers. During fiscal year 2015, ODE authorized the following transfers:

<u>CFDA #</u>	<u>Grant Title</u>	<u>Grant Year</u>	<u>Transfers Out</u>	<u>Transfers In</u>
84.010	Title I	2014	\$ 547,824	
84.010	Title I	2015		\$ 547,824
84.365	LEP, Title III	2014	2,616	
84.365	LEP, Title III	2015		2,616
84.367	Title II-A	2014	134,727	
84.367	Title II-A	2015		134,727

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

*Notes to the Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2015*

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**Note F - Workers' Compensation Rebate**

Ohio's workers' compensation system serves as an insurance program for both employers and employees alike. For those who contribute premiums, the Ohio Bureau of Workers' Compensation (BWC) covers the payment of compensation and medical costs related to industrial accidents and diseases. In 2014, the Ohio BWC Board of Directors authorized a \$1 billion rebate to 3,800 local governments and 184,000 private sector employers paying into Ohio's workers' compensation system. Each employer's rebate reflected 60% of what they were billed during the last policy period (2012 calendar year for public-taxing districts). The School District has receipted the rebate to the internal service fund only, although other funds initially paid portions of the 2012 policy year premiums. Any rebate due to federal and other funds were immaterial and no rebates were reflected in federal funds or on the Schedule. During fiscal year 2016, the School District recorded an adjustment to correct this by allocating an appropriate portion of the rebate to federal funds.

**Canton City School District**  
**Stark County, Ohio**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133, Section .505*  
*For the Fiscal Year Ended June 30, 2015*

**1. SUMMARY OF AUDITOR'S RESULTS**

(d) (1) (i)	Type of Financial Statement Opinion	Unmodified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unmodified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list): Title I Grants to Local Educational Agencies  Special Education Cluster: Special Education Grants to States Special Education Preschool Grants	CFDA #84.010  #84.027 #84.173
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$553,179 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

**Canton City School District**  
**Stark County, Ohio**  
*Schedule of Findings and Questioned Costs (Continued)*  
*OMB Circular A-133, Section .505*  
*For the Fiscal Year Ended June 30, 2015*

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Finding Number: 2015-001**

**Material Weakness – Internal Controls Over Financial Reporting**

**Criteria:** The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 122 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client’s internal control over financial reporting. This standard requires the audit to report in writing to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 122 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

**Condition:** There were adjustments made to the financial statements by the Independent Public Accounting firm hired to assist in the compilation of the financial statements prior to release for audit. In addition, there were material audit adjustments made to the financial statements presented for audit.

**Cause:** There was one factor that resulted in financial statement adjustment during the compilation as identified below.

- School District bonds were refunded during the year in the amount of \$9,005,000 in the Debt Service Fund; however, the financial activity of the issuance was not recorded on a cash basis in the accounting system.

There were three factors that resulted in audit adjustments to the financial statements presented for audit, each independent of the other, as identified below.

- The School District receives funds from the State of Ohio known as the half-mill equalization. This is paid by the Ohio Department of Education through June State Foundation settlements. These resources are restricted by state statute for classroom facilities maintenance. Since fiscal year 2009, these receipts were incorrectly credited to the General Fund instead of the Classroom Facilities Maintenance Fund.
- The School District also receives Tangible Personal Property Tax Loss Reimbursements from the State of Ohio. These funds are derived from existing tax levies, including operating, permanent improvement, and debt service levies. Since fiscal year 2006, the School District has incorrectly credited a portion of the cash receipts to the General Fund that should have been credited to either the Permanent Improvement or Debt Service funds.
- The School District had unspent bond proceeds related to the local share of the Ohio Facilities Construction Commission project that were not properly accounted for in the calculation of the Net Investment in Capital Assets.

**Canton City School District**  
**Stark County, Ohio**  
*Schedule of Findings and Questioned Costs (Continued)*  
*OMB Circular A-133, Section .505*  
*For the Fiscal Year Ended June 30, 2015*

**Finding Number: 2015-001 (Continued)**

**Effect:** Not properly posting transactions in the accounting system and insufficient review of the financial statements prior to presenting the financial statements for audit increases the risks relating to misstatement of the School District's financial statements.

**Recommendation:** The School District should develop sufficient procedures to ensure debt refunding transactions are recorded to the cash basis accounting system, cash receipts are credited to the proper funds, and financial statements are sufficiently reviewed by management prior to approval and presentation for audit.

**Management's Response:** The School District will adopt procedures to prevent, identify and correct errors and omissions to help ensure the financial statements and notes to the financial statements are complete and accurate.

**Finding Number: 2015-002**

**Significant Deficiency – Ohio Facilities Construction Commission Agreed-Upon Procedure Report**

**Criteria:** Pursuant to *Government Auditing Standards* paragraph 4.05, "auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements or other financial data significant to the audit objectives. When planning the audit, auditors should ask management of the audited entity to identify previous audits, attestation engagements, and other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives."

**Condition:** On January 21, 2009, an Independent Public Accountant issued an Agreed-Upon Procedures (AUP) report for the purpose of assisting the Ohio Facilities Construction Commission (OFCC) in gaining assurance the School District was in compliance with the laws and regulations related to the OFCC Project. The AUP report contained eight findings that required corrective action. Based on discussions with School District management and review of the findings and accounting records, no corrective action has been taken by the School District.

**Cause:** The report was acquired by the audit staff directly from OFCC. The School District was unaware of the existence of the AUP report and the required corrective action.

**Effect:** According to OFCC officials, the OFCC project will not be closed until sufficient corrective action has occurred. Corrective action could result in immaterial adjustments to the project fund cash balances.

**Recommendation:** We recommend the School District review the AUP report and take sufficient and appropriate corrective action.

**Management's Response:** Now that the School District is aware of the AUP report, we will review the findings and take action.

**Canton City School District**  
**Stark County, Ohio**  
*Schedule of Findings and Questioned Costs (Continued)*  
*OMB Circular A-133, Section .505*  
*For the Fiscal Year Ended June 30, 2015*

**Finding Number: 2015-003**

**Material Non-Compliance – Half-Mill Equalization for Classroom Facilities Maintenance**

**Criteria:** Ohio Rev. Code section 3318.18(E) requires that half-mill equalization payments made to the School District pursuant to Ohio Rev. Code section 3318.18 be credited to the Classroom Facilities Maintenance Fund and shall be used only for the purpose of maintaining facilities constructed or renovated under the project agreement.

**Condition:** The School District receives funds from the State of Ohio pursuant to Ohio Rev. Code section 3318. Since fiscal year 2009, these receipts were incorrectly credited to the General Fund instead of the Classroom Facilities Maintenance Fund.

**Cause:** The payments were received through Ohio Department of Education State Foundation settlements in June each year. The School District was not aware of the requirements of Ohio Rev. Code section 3318.18 and incorrectly concluded the half-mill equalization payments received were unrestricted State funding.

**Effect:** From fiscal year 2009 through 2015, the half-mill equalization payments were incorrectly credited to the General Fund in amounts totaling \$2,605,302. Restatements and audit adjustments have been recorded to reflect the resources in the Classroom Facilities Maintenance Fund. In consultation with the Auditor of State's office, the Board of Education has by resolution agreed to correct the errors over a period of five years beginning in fiscal year 2016.

**Recommendation:** The School District should ensure proper procedures are in place to ensure receipts derived from restricted resources are credited to the proper funds in order to demonstrate compliance with Ohio Rev. Code.

**Management's Response:** Now that the School District understands the restricted nature of these resources, we will develop sufficient procedures to ensure restricted resources are credited to the proper fund.

**Finding Number: 2015-004**

**Material Non-Compliance – Tangible Personal Property Tax Loss Reimbursements**

**Criteria:** Ohio Rev. Code section 5705.10(B) states all revenue derived from general or special levies for debt charges, whether within or in excess of the ten-mill limitation, which is levied for the debt charges on serial bonds, notes, or certificates of indebtedness having a life less than five years, shall be paid into the bond retirement fund.

**Condition:** During testing of cash receipts related to Tangible Personal Property Tax Loss Reimbursements from the State of Ohio, we noted the School District had credited cash receipts to the General Fund that should have been credited to the Debt Service Fund in accordance with the requirements of Ohio Rev. Code section 5705.10(B). We further noted the errors also occurred in prior years and as early as fiscal year 2006.

**Cause:** In years prior to fiscal year 2015, the payments were received through Ohio Department of Education State Foundation settlements. The School District was not aware of the restricted nature of these resources and incorrectly concluded the Tangible Personal Property Tax Loss Reimbursements were unrestricted State funding.



**Canton City School District**  
**Stark County, Ohio**  
*Schedule of Findings and Questioned Costs (Continued)*  
*OMB Circular A-133, Section .505*  
*For the Fiscal Year Ended June 30, 2015*

**Finding Number: 2015-004 (Continued)**

**Effect:** From fiscal year 2006 through 2015, the Tangible Personal Property Tax Loss Reimbursements were incorrectly credited to the General Fund in amounts totaling \$1,402,337. Restatements and audit adjustments have been recorded to reflect the resources in the Debt Service Fund. In consultation with the Auditor of State's office, the Board of Education has by resolution agreed to correct the errors over a period of five years beginning in fiscal year 2016.

**Recommendation:** The School District should ensure proper procedures are in place to ensure receipts derived from restricted resources are credited to the proper funds in order to demonstrate compliance with Ohio Rev. Code.

**Management's Response:** Now that the School District understands the restricted nature of these resources, we will develop sufficient procedures to ensure restricted resources are credited to the proper fund.

**Finding Number: 2015-005**

**Material Non-Compliance – Appropriations Exceeded Estimated Resources**

**Criteria:** Ohio Rev. Code section 5705.39 states that total appropriations from each fund shall not exceed the total of the estimated resources available for expenditure there from, as certified by the budget commission. No appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official certificate or amended official certificate. When the appropriation does not exceed such official certificate, the county auditor shall give such certificate forthwith upon receiving from the appropriating authority a certified copy of the appropriation measure. Appropriations shall be made from each fund only for the purposes for which such fund is established.

**Condition:** As of June 30, 2015, final appropriations exceeded the certified estimated resources for the Debt Service Fund by \$8,716,935.

**Cause:** A bond refunding in the Debt Service Fund was not certified as estimated resources in accordance with Ohio Rev. Code. Management has the responsibility to identify and budget all relevant transactions during the year in accordance with Ohio Rev. Code.

**Effect:** Appropriations exceeded certified estimated resources, materially, in the Debt Service Fund.

**Recommendation:** We recommend the School District monitor appropriations to estimated resources in all funds which are legally required to be budgeted, to ensure compliance with the above requirement. This comparison should be compared on a regular basis and any time either the certificate of estimated resources or appropriations are amended.

**Management's Response:** The School District will ensure estimated resources and appropriations are amended to account for future debt refunding activity.

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

**Canton City School District**  
**Stark County, Ohio**  
*Schedule of Prior Audit Findings*  
*OMB Circular A-133, Section .315(b)*  
*For the Fiscal Year Ended June 30, 2015*

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain</b>
2014-001	Significant Deficiency – Capital Assets	Yes	Corrected
2014-002	Material Non-Compliance – Appropriations Exceeded Estimated Resources	No	Repeated as Finding 2015-005



# 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  
JUNE 21, 2016**