



**Auditor of State
Betty Montgomery**

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Canton City School District
Stark County
617 McKinley Avenue, SW
Canton, Ohio 44707

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Canton City School District, Stark County, (the District) as of and for the year ended June 30, 2002, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Canton City School District, Stark County, as of June 30, 2002, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2002, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Schedule of Receipts and Expenditures of Federal Awards to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 19, 2003

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
UNAUDITED

The discussion and analysis of Canton City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2002. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2002 are as follows:

- In total, net assets decreased \$5.727 million. Net assets of governmental activities decreased \$5.308 million which represents a 3.06% decrease from 2001. Net assets of business-type activities decreased \$419,000 or 11.13% from 2001.
- General revenues accounted for \$89.564 million in revenue or 71.46% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$35.777 million or 28.54% of total revenues of \$125.341 million.
- The District had \$125.079 million in expenses related to governmental activities; only \$30.443 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$89.544 million were not adequate to provide for these programs, resulting in a decrease to governmental net assets. In addition, the District recorded a \$216,000 loss on an exchange of capital assets which is reported as a special item.
- The District has three major governmental funds. These funds had \$115.737 million in revenues and other financing sources and \$113.409 million in expenditures and other financing uses. The major funds fund balance increased to \$56.115 million from \$53.781 million.
- Net assets for the District's two nonmajor enterprise funds decreased significantly. This decline resulted from operating expenses of \$5.773 million exceeding operating revenues of \$1.598 million. Grants of \$3.462 million in the Food Service and Adult Education funds reduced the operating loss.

Using these Basic Financial Statements

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
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Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities answer the question, "How did we do financially during 2002?" These statements include *all assets and liabilities* 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.

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

In the Statement of Net Assets and the Statement of Activities, the District is divided into two distinct kinds of activities:

Governmental Activities - Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The District's adult education programs and food service operations are reported as business activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begin on page 17. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District has three major governmental funds as follows: general fund, debt service fund, and the Classroom Facilities capital projects fund.

Governmental Funds

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
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Proprietary Funds

Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match information provided in the statements for the District as a whole.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 26 and 27. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

This is the first year for government-wide financial statements using the full accrual basis of accounting, therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

The table below provides a summary of the District's net assets for 2002 (Amounts in 000's):

	Net Assets		
	Governmental Activities <u>2002</u>	Business-Type Activities <u>2002</u>	Total <u>2002</u>
<u>Assets</u>			
Current assets	\$209,528	\$3,498	\$213,026
Capital assets	<u>67,561</u>	<u>242</u>	<u>67,803</u>
Total assets	<u>277,089</u>	<u>3,740</u>	<u>280,829</u>
<u>Liabilities</u>			
Current liabilities	52,297	321	52,618
Long-term liabilities	<u>56,713</u>	<u>74</u>	<u>56,787</u>
Total liabilities	<u>109,010</u>	<u>395</u>	<u>109,405</u>
<u>Net Assets</u>			
Invested in capital assets, net of debt	67,543	242	67,785
Restricted	106,020	-	106,020
Unrestricted (deficit)	<u>(5,484)</u>	<u>3,103</u>	<u>(2,381)</u>
Total net assets	<u>\$168,079</u>	<u>\$3,345</u>	<u>\$171,424</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
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The table below shows the changes in net assets for fiscal year 2002. Since this is the first year the District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2001 are not available. A comparative analysis will be provided in future years when prior year information is available (Amounts in 000's):

Change in Net Assets

	Governmental Activities <u>2002</u>	Business-Type Activities <u>2002</u>	Total <u>2002</u>
<u>Revenues</u>			
Program Revenues:			
Charges for services and sales	\$ 2,864	\$1,597	\$ 4,461
Operating grants and contributions	23,788	3,737	27,525
Capital grants and contributions	3,791	-	3,791
General Revenues:			
Property taxes	31,882	-	31,882
Grants and entitlements	56,216	-	56,216
Investment earnings	1,120	19	1,139
Other	<u>326</u>	<u>1</u>	<u>327</u>
Total revenues	<u>119,987</u>	<u>5,354</u>	<u>125,341</u>
<u>Expenses</u>			
Program Expenses:			
Instruction:			
Regular	46,201	-	46,201
Special	17,330	-	17,330
Vocational	2,775	-	2,775
Other	3,911	-	3,911
Support Services:			
Pupil	8,769	-	8,769
Instructional Staff	6,308	-	6,308
Board of Education	42	-	42
Administration	10,080	-	10,080
Fiscal	1,554	-	1,554
Business	873	-	873
Operations and maintenance	12,909	-	12,909
Pupil transportation	3,099	-	3,099
Central	5,386	-	5,386
Operation of non-instructional services	1,437	-	1,437
Extracurricular activities	1,950	-	1,950
Other	272	-	272
Intergovernmental	413	-	413
Interest and fiscal charges	1,770	-	1,770
Food Service	-	4,694	4,694
Adult Education	-	<u>1,079</u>	<u>1,079</u>
Total expenses	<u>125,079</u>	<u>5,773</u>	<u>130,852</u>
Change in net assets before special items	(5,092)	(419)	(5,511)
<u>Special Item</u>			
Loss on exchange of capital assets	<u>(216)</u>	-	<u>(216)</u>
Change in net assets	<u><u>\$(5,308)</u></u>	<u><u>\$(419)</u></u>	<u><u>\$(5,727)</u></u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
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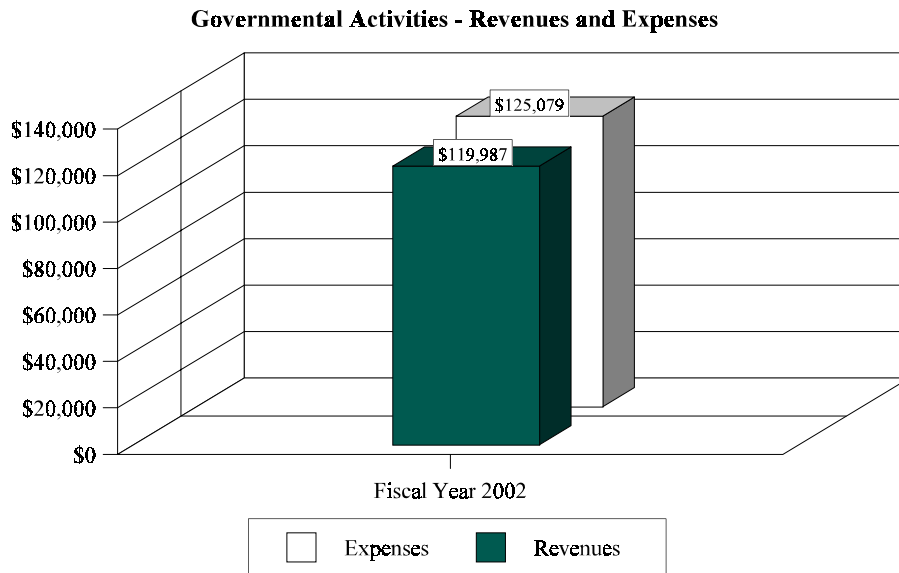
Governmental Activities

Net assets of the District's governmental activities decreased by \$5.308 million. Total governmental expenses of \$125.079 million were offset by program revenues of \$30.443 million and general revenues of \$89.544 million. Program revenues supported 24.34% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 73.42% of total governmental revenue. Real estate property is reappraised every six years. Although recent growth has had a positive effect on the District's tax base, the full tax revenue impact has not been realized due to H.B. 920. This state law, enacted in 1976, does not allow for revenue increases caused by inflationary growth of real property values. Increases in valuation prompt corresponding annual reductions in the "effective millage", the tax rates applied to real property. Thus, although the District tax valuation continues to grow, this built-in revenue limitation requires the District to request additional school operating revenue by placing a levy on the ballot periodically (every three to five years, on average). The District is projecting a need for an operating levy during calendar year 2003. The District has passed three operating levies in the past (in 1987, 1990 and 1994) with the last being passed almost eight years ago. Higher than normal increases in State revenues is the reason that the District has managed to go this long without a local tax increase.

Historically, the increase in State revenues has averaged about 5% per year. During fiscal 2002, the increase was approximately 3% and future increases in State revenues is expected to be less than one percent. This is primarily due to the District's declining enrollment which can be attributed to the opening of two new charter schools in the area. In addition, this State revenue includes approximately \$1.55 million and \$1.7 million in parity aid for fiscal 2002 and 2003, respectively, which is restricted for new initiatives and not for general use of the District.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2002 (Amounts in 000's):



**CANTON CITY SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2001 have not been presented since they are not available (Amounts in 000's):

Governmental Activities

	<u>Total Cost of Services 2002</u>	<u>Net Cost of Services 2002</u>
Program Expenses:		
Instruction:		
Regular	\$46,201	\$35,427
Special	17,330	13,288
Vocational	2,775	2,718
Other	3,911	2,920
Support Services:		
Pupil	8,769	6,614
Instructional staff	6,308	2,987
Board of education	42	42
Administration	10,080	7,878
Fiscal	1,554	1,451
Business	873	855
Operations and maintenance	12,909	9,447
Pupil transportation	3,099	2,858
Central	5,386	3,932
Operation of non-instructional services	1,437	926
Extracurricular activities	1,950	1,325
Other	272	272
Intergovernmental	413	(74)
Interest and fiscal charges	<u>1,770</u>	<u>1,770</u>
Total expenses	<u>\$125,079</u>	<u>\$94,636</u>

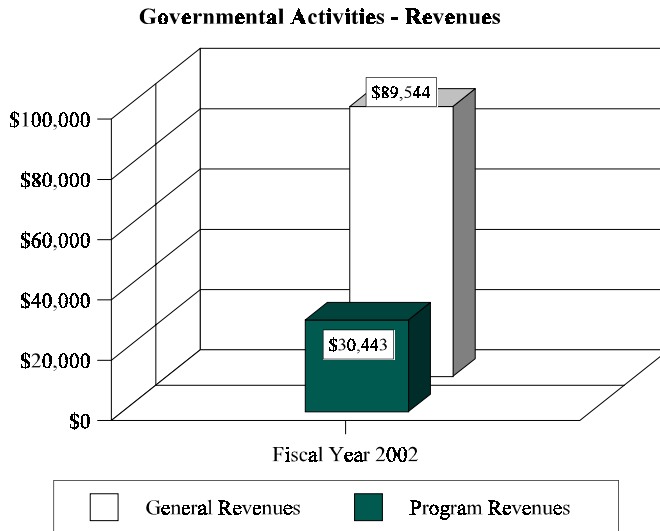
The dependence upon tax revenues for governmental activities is apparent, 77.41% of instruction activities are supported through taxes and other general revenues, for all governmental activities general revenue support is 75.66%. The District's taxpayers, as a whole, is by far the primary support for District's students.

Due to the District's declining enrollment, projected decreases in State aid and flat tax revenue, the District is in the process of evaluating all programs for feasibility. At the current pace, the cost per pupil is increasing to an unsustainable level. New initiatives are being assessed to lower costs. Approximately 80% of expenditures for the District are for personnel which includes salaries, wages and benefits. Future cost reductions in this area are scheduled through attrition, however, if no future revenue funding can be projected (i.e. through the passage of an operating levy), further staff reduction may become necessary. The District is working hard to maintain staffing levels in an effort to implement new programs designed to improve student achievement.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
UNAUDITED**

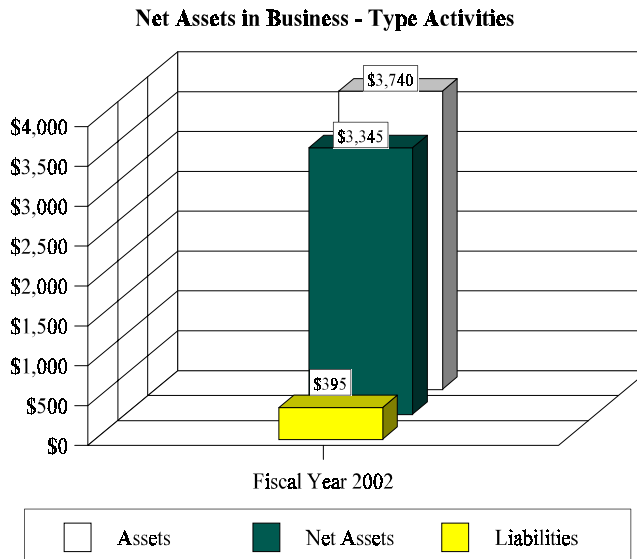
The graph below presents the District's governmental activities revenue for fiscal year 2002 (Amounts in 000's):



Business-Type Activities

Business-type activities include adult education and the food service operation. These programs had revenues of \$5.354 million and expenses of \$5.773 million for fiscal year 2002. To ensure that net assets are not further reduced in fiscal 2002, the District is taking steps to reduce expenses, including renegotiating vendor agreements. The District's business activities receive no support from tax revenues.

The following graph shows the net assets in business-type activities for the fiscal year 2002 (Amounts in 000's):



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
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The District's Funds

The District's governmental funds reported a combined fund balance of \$64.023 million, which is above last year's total of \$56.415 million. The June 30, 2001 fund balances have been restated as described on page 39. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2002 and 2001 (Amounts in 000's).

	<u>Fund Balance June 30, 2002</u>	<u>Fund Balance June 30, 2001</u>	<u>Increase/ (Decrease)</u>
General	\$(1,464)	\$ 3,500	\$(4,964)
Debt Service	4,338	2,969	1,369
Classroom Facilities	53,241	47,312	5,929
Other Governmental	<u>7,600</u>	<u>2,634</u>	<u>4,966</u>
Total	<u>\$63,715</u>	<u>\$56,415</u>	<u>\$ 7,300</u>

General Fund

The District's general fund balance decreased by \$4.964 million. The decrease in fund balance can be attributed primarily to the overall increase in salaries, wages and fringe benefits coupled with flat revenues. In addition, in fiscal year 2002 the general fund subsidized other funds of the District with operating transfers of \$328,000. Note 5.B. to the basic financial statements details the funds which received the operating transfers from the general fund. The table that follows assists in illustrating the financial activities and fund balance of the general fund (Amounts in 000's).

	<u>2002 Amount</u>	<u>2001 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$25,879	\$27,358	(5.41)
Earnings on investments	1,023	1,597	(35.94)
Intergovernmental	57,443	55,803	2.94
Other revenues	<u>2,067</u>	<u>1,457</u>	41.87
Total	<u>\$86,412</u>	<u>\$86,215</u>	0.23
<u>Expenditures</u>			
Instruction	\$54,447	\$49,037	(11.03)
Support services	34,521	30,902	(11.71)
Operation on non-instructional services	645	501	(28.74)
Extracurricular activities	1,028	1,049	2.00
Facilities acquisition and construction	391	1,115	64.93
Debt service	<u>50</u>	<u>18</u>	(177.78)
Total	<u>\$91,082</u>	<u>\$82,622</u>	(10.24)

General Fund Budgeting Highlights

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
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During the course of fiscal 2002, the District amended its general fund budget numerous times, none significant. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, final budgeted revenues and other financing sources were \$87.957 million, above original budget estimates of \$87.886 million. The increase was insignificant.

General fund original appropriations of \$90.840 million were increased approximately 3.63% in the final budget. The increase can be attributed to an overall increase in costs. The actual budget basis expenditures and other financing uses for fiscal year 2002 totaled \$99.123 million, which was \$4.985 million more than the final budget appropriations of \$94.138 million. This is primarily due to the practice of not budgeting for advances out to other funds, which are not legally required to be appropriated.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2002, the District had \$67.803 million invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Of this total, \$67.561 million was reported in governmental activities and \$242,000 was reported in business-type activities. The June 30, 2001 balances in fixed assets have been restated due to a change in the District's capitalization criteria from \$500 to \$5,000 in the governmental fixed assets and for errors and omissions previously reported in both governmental and business-type activities fixed assets. See Note 3.A. to the basic financial statements. The following table shows fiscal 2002 balances compared to 2001 (Amounts in 000's):

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

	Governmental Activities		Business-Type Activities		Total	
	2002	2001	2002	2001	2002	2001
Land	\$17,108	\$16,214	\$ -	\$ -	\$17,108	\$16,214
Land improvements	3,712	3,800	-	-	3,712	3,800
Buildings/improvements	28,208	15,026	-	-	28,208	15,026
Furniture/equipment	1,826	1,303	242	222	2,068	1,525
Vehicles	1,055	1,066	-	-	1,055	1,066
Construction in progress	<u>15,652</u>	<u>14,598</u>	-	-	<u>15,652</u>	<u>14,598</u>
Totals	<u>\$67,561</u>	<u>\$52,007</u>	<u>\$242</u>	<u>\$222</u>	<u>\$67,803</u>	<u>\$52,229</u>

The primary increase occurred in building improvements which include projects through the Ohio School Facilities Commission that were completed during fiscal 2002. See Note 8 and Note 18 to the basic financial statements for detail on the District's construction projects. During fiscal 2002, renovation projects at Cedar, Stone, and Fairmount Elementaries were completed at a cost of \$12.750 million. At June 30, 2002, the District still has approximately \$118 million in construction commitments outstanding.

During fiscal 2002, the District completed an exchange of a District owned school building and the related land for land owned by the City of Canton. The exchange of real property resulted in a loss of \$216,000. This loss represents the difference between the net book value of the land and building given by the District and the fair market value of the land received by the District.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
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Debt Administration

At June 30, 2002 the District had \$46.809 million in general obligation bonds and \$6.165 million in notes outstanding. Of this total, \$280,000 is due within one year and \$52.694 million is due within greater than one year. The following table summarizes the bonds and note outstanding (Amounts in 000's):

Outstanding Debt, at Year End

	<u>Governmental Activities 2002</u>	<u>Governmental Activities 2001</u>
General obligation bonds:		
Construction and renovation	\$46,809	\$46,783
Note payable	<u>6,165</u>	<u>-</u>
Total	<u>\$52,974</u>	<u>\$46,783</u>

The following is a summary of the District's bond activity for fiscal 2002 (Amounts in 000's):

	<u>Balance June 30, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2002</u>
Current interest bonds	\$29,835	\$ -	\$(105)	\$29,730
Capital appreciation bonds *	848	131	-	979
QZAB'S **	<u>16,100</u>	<u>-</u>	<u>-</u>	<u>16,100</u>
Total	<u>\$46,783</u>	<u>\$131</u>	<u>\$(105)</u>	<u>\$46,809</u>

* Capital appreciation bonds accrete interest and increase the principal balance due until maturity at which time the face value of the bonds are due.

** The QZABS will be paid at maturity. The District makes mandatory sinking fund payments so that funds will be available when the QZAB'S mature. During fiscal 2002, the District made \$1.115 million in sinking fund payments. The sinking fund deposits are maintained in the debt service fund.

The note was issued in fiscal 2002 to provide for construction projects undertaken by the District. This note is scheduled to mature in fiscal year 2013.

In fiscal 2001, the District issued bonds to provide financing for various construction and renovation projects. This bond issue is comprised of current interest bonds, capital appreciation bonds and qualified zone academy bonds (QZAB's). The QZAB's require the District to make mandatory sinking fund payments annually on December 1 of each year. These funds are maintained by the District in it's internal investment pool until maturity of the QZAB's in fiscal year 2014 and 2016. At maturity, the District will retire the QZAB's with the sinking fund payments accumulated during the fiscal years leading up to the maturity. The capital appreciation bonds are scheduled to mature in fiscal years 2006-2010 and the current interest bonds mature in fiscal year 2024.

At June 30, 2002 the District's overall legal debt margin was \$32.467 million with an unvoted debt margin of \$833,000. The District maintains an A-1 bond rating.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
UNAUDITED

For the Future

The District faces many challenges in the future. As the preceding information shows, the District relies heavily upon grants and entitlements and property taxes. Since future grant and entitlement revenue is expected to decrease, the reliance upon local taxes is increasingly important. The District is in a situation where an operating levy may have to be passed by District voters in 2003 in order for the District to obtain the necessary funds to meet its operating expenses in fiscal year 2003. Without the passage of an operating levy, future reduction in staffing appears inevitable.

Another challenge facing the District is the completion of the various construction projects undertaken through the Ohio School Facilities Commission (OSFC). Approximately \$179 million in new schools and renovations are scheduled under the OSFC project. All construction projects are expected to be completed by fiscal year 2007.

The last challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

The District has anticipated a lower than normal increase in funding due to declining enrollment in future State revenue. The District has lost over 1,000 students over the last three years. When these students leave, the State funding is also decreased. The District's main challenge is how to stop this declining enrollment. With decreased State funding, cost cutting measures are inevitable unless other revenue sources become available (i.e. operating tax levy).

The District's system of budgeting and internal controls are well regarded. All of the District's financial abilities will be needed to meet the financial challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. James Reinhard, Treasurer at Canton City School District, 617 McKinley Ave. SW, Canton, Ohio, 44707.

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT OF NET ASSETS
JUNE 30, 2002
(AMOUNTS IN 000's)

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 82,660	\$ 3,452	\$ 86,112
Cash in segregated accounts.	326	-	326
Receivables:			
Taxes	36,223	-	36,223
Accounts	144	-	144
Intergovernmental	89,535	-	89,535
Accrued interest	324	-	324
Prepayments	82	-	82
Materials and supplies inventory	126	46	172
Deferred charges	108	-	108
Capital assets:			
Land and construction in progress.	32,760	-	32,760
Depreciable capital assets, net.	34,801	242	35,043
Total capital assets.	67,561	242	67,803
 Total assets.	 277,089	 3,740	 280,829
 Liabilities:			
Accounts payable.	1,518	8	1,526
Contracts payable.	1,977	-	1,977
Retainage payable	326	-	326
Accrued wages and benefits	11,947	114	12,061
Pension obligation payable.	2,758	193	2,951
Intergovernmental payable	210	4	214
Deferred revenue	30,621	-	30,621
Accrued interest payable	134	-	134
Unamortized premium on notes	111	-	111
Claims payable	1,745	-	1,745
Long-term liabilities:			
Due within one year.	950	2	952
Due within more than one year	56,713	74	56,787
 Total liabilities	 109,010	 395	 109,405
 Net Assets:			
Invested in capital assets, net of related debt.	67,543	242	67,785
Restricted for:			
Capital projects	100,957	-	100,957
Debt service.	4,755	-	4,755
Other purposes	308	-	308
Unrestricted (deficit)	(5,484)	3,103	(2,381)
 Total net assets	 \$ 168,079	 \$ 3,345	 \$ 171,424

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, 2002
(AMOUNTS IN 000's)

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Instruction:				
Regular	\$ 46,201	\$ 1,532	\$ 9,242	\$ -
Special	17,330	-	4,042	-
Vocational	2,775	39	18	-
Other	3,911	-	991	-
Support services:				
Pupil	8,769	385	1,770	-
Instructional staff	6,308	-	3,321	-
Board of education	42	-	-	-
Administration	10,080	39	2,163	-
Fiscal	1,554	-	103	-
Business	873	-	18	-
Operations and maintenance	12,909	68	411	2,983
Pupil transportation	3,099	65	176	-
Central	5,386	-	646	808
Operation of non-instructional services	1,437	111	400	-
Extracurricular activities	1,950	625	-	-
Other	272	-	-	-
Intergovernmental	413	-	487	-
Interest and fiscal charges	1,770	-	-	-
Total governmental activities	<u>125,079</u>	<u>2,864</u>	<u>23,788</u>	<u>3,791</u>
Business-type activities:				
Food service	4,694	797	3,359	-
Adult education	1,079	800	378	-
Total business-type activities	<u>5,773</u>	<u>1,597</u>	<u>3,737</u>	<u>-</u>
Totals	<u>\$ 130,852</u>	<u>\$ 4,461</u>	<u>\$ 27,525</u>	<u>\$ 3,791</u>

General Revenues:

Property taxes levied for:
 General purposes
 Debt service
 Capital outlay
Grants and entitlements not restricted
 to specific programs
Investment earnings
Miscellaneous

Special Item:

Loss on exchange of capital assets

Total general revenues and special item
Change in net assets
Net assets at beginning of year
Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Assets**

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (35,427)	\$ -	\$ (35,427)
(13,288)	-	(13,288)
(2,718)	-	(2,718)
(2,920)	-	(2,920)
(6,614)	-	(6,614)
(2,987)	-	(2,987)
(42)	-	(42)
(7,878)	-	(7,878)
(1,451)	-	(1,451)
(855)	-	(855)
(9,447)	-	(9,447)
(2,858)	-	(2,858)
(3,932)	-	(3,932)
(926)	-	(926)
(1,325)	-	(1,325)
(272)	-	(272)
74	-	74
<u>(1,770)</u>	<u>-</u>	<u>(1,770)</u>
<u>(94,636)</u>	<u>-</u>	<u>(94,636)</u>
-	(538)	(538)
<u>-</u>	<u>99</u>	<u>99</u>
-	(439)	(439)
<u>(94,636)</u>	<u>(439)</u>	<u>(95,075)</u>
27,348	-	27,348
3,157	-	3,157
1,377	-	1,377
56,216	-	56,216
1,120	19	1,139
326	1	327
<u>(216)</u>	<u>-</u>	<u>(216)</u>
89,328	20	89,348
(5,308)	(419)	(5,727)
<u>173,387</u>	<u>3,764</u>	<u>177,151</u>
<u>\$ 168,079</u>	<u>\$ 3,345</u>	<u>\$ 171,424</u>

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2002
(AMOUNTS IN 000's)

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and investments	\$ 6,821	\$ 4,246	\$ 55,198	\$ 12,722	\$ 78,987
Cash in segregated accounts	-	-	326	-	326
Receivables:					
Taxes	31,385	3,051	-	1,787	36,223
Accounts	143	-	-	-	143
Intergovernmental	536	-	86,575	2,424	89,535
Accrued interest	103	-	222	-	325
Interfund loans	2,528	-	-	-	2,528
Prepayments	82	-	-	-	82
Materials and supplies inventory	126	-	-	-	126
Restricted assets:					
Equity in pooled cash and investments	293	-	-	-	293
Total assets	<u>\$ 42,017</u>	<u>\$ 7,297</u>	<u>\$ 142,321</u>	<u>\$ 16,933</u>	<u>\$ 208,568</u>
Liabilities:					
Accounts payable	\$ 911	\$ -	\$ -	\$ 607	\$ 1,518
Contracts payable	-	-	1,957	20	1,977
Retainage payable	-	-	326	-	326
Accrued wages and benefits	9,779	-	-	2,164	11,943
Compensated absences payable	244	-	-	-	244
Pension obligation payable	1,536	-	-	299	1,835
Intergovernmental payable	172	-	-	38	210
Interfund loans	-	-	-	2,528	2,528
Deferred revenue	30,839	2,959	86,797	3,677	124,272
Total liabilities	<u>43,481</u>	<u>2,959</u>	<u>89,080</u>	<u>9,333</u>	<u>144,853</u>
Fund Balances:					
Reserved for encumbrances	1,338	-	157	1,540	3,035
Reserved for BWC refunds	293	-	-	-	293
Reserved for materials and supplies inventory	126	-	-	-	126
Reserved for property tax unavailable for appropriation	657	92	-	40	789
Reserved for prepayments	82	-	-	-	82
Unreserved, undesignated, reported in:					
General fund	(3,960)	-	-	-	(3,960)
Special revenue funds	-	-	-	(106)	(106)
Debt service fund	-	4,246	-	-	4,246
Capital projects funds	-	-	53,084	6,126	59,210
Total fund balances	<u>(1,464)</u>	<u>4,338</u>	<u>53,241</u>	<u>7,600</u>	<u>63,715</u>
Total liabilities and fund balances	<u>\$ 42,017</u>	<u>\$ 7,297</u>	<u>\$ 142,321</u>	<u>\$ 16,933</u>	<u>\$ 208,568</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2002
(AMOUNTS IN 000's)

Total governmental fund balances		\$	63,715
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			67,561
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	5,441	
Accrued interest		324	
Intergovernmental revenue		<u>87,888</u>	
Total			93,653
Internal service funds are used by management to charge the costs of insurance, workers' compensation and warehouse services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			1,628
Unamortized deferred charges are not recognized in the funds.			108
Unamortized premiums on debt issuances are not recognized in the funds.			(111)
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		46,809	
Compensated absences		4,428	
Pension obligation payable		922	
Capital lease obligation		17	
Notes payable		6,165	
Accrued interest payable		<u>134</u>	
Total			<u>(58,475)</u>
Net assets of governmental activities		<u>\$</u>	<u>168,079</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, 2002
(AMOUNTS IN 000's)

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes	\$ 25,879	\$ 3,009	\$ -	\$ 1,416	\$ 30,304
Tuition	717	-	-	22	739
Earnings on investments	1,023	-	2,567	22	3,612
Extracurricular	84	-	-	997	1,081
Other local revenues	1,266	-	-	337	1,603
Other revenue	-	-	-	2,166	2,166
Intergovernmental - State	55,914	352	23,240	11,084	90,590
Intergovernmental - Federal	1,529	-	-	10,343	11,872
Total revenue	<u>86,412</u>	<u>3,361</u>	<u>25,807</u>	<u>26,387</u>	<u>141,967</u>
Expenditures:					
Current:					
Instruction:					
Regular	36,960	-	-	8,251	45,211
Special	11,753	-	-	5,354	17,107
Vocational	2,745	-	-	22	2,767
Other	2,989	-	-	928	3,917
Support Services:					
Pupil	6,450	-	-	2,309	8,759
Instructional staff	2,482	-	-	3,683	6,165
Board of education	43	-	-	-	43
Administration	7,801	-	-	2,025	9,826
Fiscal	1,434	-	-	132	1,566
Business	853	-	-	11	864
Operations and maintenance	9,055	-	-	1,899	10,954
Pupil transportation	2,513	-	-	89	2,602
Central	3,890	-	-	1,443	5,333
Operation of non-instructional services	645	-	-	434	1,079
Extracurricular activities	1,028	-	-	673	1,701
Facilities acquisition and construction	391	-	19,878	248	20,517
Intergovernmental pass through	-	-	-	413	413
Other	-	272	-	-	272
Debt service:					
Principal retirement	46	105	-	-	151
Interest and fiscal charges	4	1,636	-	-	1,640
Note issuance costs	-	108	-	-	108
Total expenditures	<u>91,082</u>	<u>2,121</u>	<u>19,878</u>	<u>27,914</u>	<u>140,995</u>
Excess of revenues over (under) expenditures	<u>(4,670)</u>	<u>1,240</u>	<u>5,929</u>	<u>(1,527)</u>	<u>972</u>
Other financing sources (uses):					
Transfers in	-	-	-	328	328
Transfers (out)	(328)	-	-	-	(328)
Accrued interest on notes sold	-	18	-	-	18
Premium on notes sold	-	111	-	-	111
Proceeds from sale of notes	-	-	-	6,165	6,165
Proceeds from sale of capital assets	28	-	-	-	28
Total other financing sources (uses)	<u>(300)</u>	<u>129</u>	<u>-</u>	<u>6,493</u>	<u>6,322</u>
Net change in fund balances	(4,970)	1,369	5,929	4,966	7,294
Fund balances at beginning of year (restated)	3,500	2,969	47,312	2,634	56,415
Increase in reserve for inventory	6	-	-	-	6
Fund balances at end of year	<u>\$ (1,464)</u>	<u>\$ 4,338</u>	<u>\$ 53,241</u>	<u>\$ 7,600</u>	<u>\$ 63,715</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, 2002
(AMOUNTS IN 000's)

Net change in fund balances - total governmental funds	\$	7,294
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.		15,769
In the statement of activities, a loss on an exchange of capital assets between the District and the City of Canton is reported. No proceeds from the transaction were reported in the governmental funds. Thus, the change in net assets differs from the change in net assets by the loss recognized.		(216)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(22,061)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		151
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		1
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		(6,875)
Deferred charges are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		108
Premiums on debt issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		(111)
The internal service funds used by management to charge the costs of insurance, workers' compensation and warehouse services are not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities.		<u>632</u>
Change in net assets of governmental activities	\$	<u>(5,308)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
STATEMENT IN REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(AMOUNTS IN 000's)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 26,187	\$ 26,187	\$ 26,000	\$ (187)
Tuition.	561	561	560	(1)
Earnings on investments.	1,070	1,070	1,058	(12)
Extracurricular.	103	103	100	(3)
Other local revenues.	1,435	1,434	1,420	(14)
Intergovernmental - State.	56,241	56,313	55,914	(399)
Intergovernmental - Federal	1,377	1,377	1,364	(13)
Total revenue	<u>86,974</u>	<u>87,045</u>	<u>86,416</u>	<u>(629)</u>
Expenditures:				
Current:				
Instruction:				
Regular	37,124	37,790	37,152	638
Special.	10,900	11,060	11,677	(617)
Vocational.	3,009	3,354	3,101	253
Other	2,247	3,026	2,960	66
Support Services:				
Pupil.	6,238	6,227	6,309	(82)
Instructional staff	2,538	2,494	2,498	(4)
Board of education	23	30	29	1
Administration.	7,673	7,807	7,790	17
Fiscal	1,372	1,378	1,481	(103)
Business.	994	1,063	910	153
Operations and maintenance	9,676	9,860	9,369	491
Pupil transportation.	2,371	2,373	2,569	(196)
Central	3,209	3,962	4,193	(231)
Operation of non-instructional services.	688	713	677	36
Extracurricular activities	1,047	1,062	1,139	(77)
Facilities acquisition and construction.	846	793	395	398
Total expenditures	<u>89,955</u>	<u>92,992</u>	<u>92,249</u>	<u>743</u>
Excess of revenues over (under) expenditures	<u>(2,981)</u>	<u>(5,947)</u>	<u>(5,833)</u>	<u>114</u>
Other financing sources (uses):				
Refund of prior year expenditure.	886	886	887	1
Refund of prior year receipt	(230)	(238)	(238)	-
Operating transfers in	-	-	9	9
Operating transfers out	(225)	(225)	(337)	(112)
Advances in	-	-	6,497	6,497
Advances out	(430)	(683)	(6,299)	(5,616)
Proceeds from sale of fixed assets	26	26	28	2
Total other financing sources (uses)	<u>27</u>	<u>(234)</u>	<u>547</u>	<u>781</u>
Net change in fund balance	(2,954)	(6,181)	(5,286)	895
Fund balance at beginning of year (restated).				
	8,355	8,355	8,355	-
Prior year encumbrances appropriated				
	1,960	1,960	1,960	-
Fund balance at end of year	<u>\$ 7,361</u>	<u>\$ 4,134</u>	<u>\$ 5,029</u>	<u>\$ 895</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
 STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2002
 (AMOUNTS IN 000's)

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
	<u> </u>	<u> </u>
Assets:		
Current assets:		
Equity in pooled cash and investments	\$ 3,452	\$ 3,380
Materials and supplies inventory	46	-
	<u> </u>	<u> </u>
Total current assets	3,498	3,380
Noncurrent assets:		
Depreciable capital assets, net	242	-
	<u> </u>	<u> </u>
Total assets	3,740	3,380
Liabilities:		
Accounts payable	8	-
Accrued wages and benefits	115	3
Compensated absences	2	-
Pension obligation payable	192	2
Interfund loan payable	1	-
Intergovernmental payable	3	-
Deferred revenue	-	2
Claims payable	-	1,745
	<u> </u>	<u> </u>
Total current liabilities	321	1,752
Long-term liabilities:		
Compensated absences	74	-
	<u> </u>	<u> </u>
Total liabilities	395	1,752
Net assets:		
Invested in capital assets	242	-
Unrestricted	3,103	1,628
	<u> </u>	<u> </u>
Total net assets	<u>\$ 3,345</u>	<u>\$ 1,628</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002
 (AMOUNTS IN 000's)

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
	<u> </u>	<u> </u>
Operating revenues:		
Tuition and fees	\$ 800	\$ 103
Sales/charges for services	797	10,455
Other.	<u>1</u>	<u>-</u>
 Total operating revenues.	 <u>1,598</u>	 <u>10,558</u>
 Operating expenses:		
Personal services.	2,776	60
Purchased services.	144	806
Materials and supplies	2,135	125
Depreciation	58	-
Claims	-	8,972
Other.	<u>660</u>	<u>-</u>
 Total operating expenses.	 <u>5,773</u>	 <u>9,963</u>
 Operating income (loss)	 <u>(4,175)</u>	 <u>595</u>
 Nonoperating revenues:		
Federal donated commodities	275	-
Interest revenue	19	37
Operating grants	<u>3,462</u>	<u>-</u>
 Total nonoperating revenues.	 <u>3,756</u>	 <u>37</u>
 Change in net assets	 (419)	 632
 Net assets at beginning of year.	 <u>3,764</u>	 <u>996</u>
 Net assets at end of year	 <u>\$ 3,345</u>	 <u>\$ 1,628</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, 2002
 (AMOUNTS IN 000's)

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
Cash flows from operating activities:		
Cash received from tuition and fees	\$ 800	\$ 103
Cash received from sales/charges for services.	797	10,457
Cash received from other operations.	1	-
Cash payments for personal services.	(2,761)	(60)
Cash payments for contractual services	(144)	(807)
Cash payments for materials and supplies	(1,905)	(125)
Cash payments for claims expense	-	(8,973)
Cash payments for other expenses.	(660)	-
Net cash provided by (used in) operating activities	(3,872)	595
Cash flows from noncapital financing activities:		
Cash received from operating grants.	4,427	-
Cash received from operating transfers in	163	-
Cash payments for operating transfers out	(163)	-
Cash received from interfund loans	1,378	-
Cash used in repayment of interfund loans.	(1,378)	-
Net cash provided by noncapital financing activities.	4,427	-
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(78)	-
Net cash used in capital and related financing activities.	(78)	-
Cash flows from investing activities:		
Interest received	19	37
Net cash provided by investing activities	19	37
Net increase in cash and cash equivalents.	496	632
Cash and cash equivalents at beginning of year	2,956	2,748
Cash and cash equivalents at end of year	\$ 3,452	\$ 3,380

(Continued)

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002
 (AMOUNTS IN 000's)

	Business-Type Activities - Nonmajor Enterprise Funds	Governmental Activities - Internal Service Funds
Reconciliation of operating income (loss)		
to net cash provided by (used in)		
operating activities:		
Operating income (loss)	\$ (4,175)	\$ 595
Adjustments:		
Depreciation	59	-
Federal donated commodities	275	-
Changes in assets and liabilities:		
Increase in materials and supplies inventory	(1)	-
Decrease in accounts payable	(8)	(1)
Increase in accrued wages and benefits	11	-
Increase in intergovernmental payable	4	-
Decrease in compensated absences payable	(4)	-
Increase in pension obligation payable	2	-
Increase (decrease) in deferred revenue	(35)	2
Decrease in claims payable	-	(1)
	-	(1)
Net cash provided by (used in)		
operating activities	\$ (3,872)	\$ 595

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2002
 (AMOUNTS IN 000's)

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$ 84	\$ 232
Total assets	84	232
Liabilities:		
Due to students	-	232
Total liabilities	-	\$ 232
Net Assets:		
Held in trust for scholarships	84	
Total net assets	\$ 84	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002
 (AMOUNTS IN 000's)

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 2
Gifts and contributions.	45
Total additions.	47
Deductions:	
Scholarships awarded	55
Change in net assets	(8)
Net assets at beginning of year.	92
Net assets at end of year	\$ 84

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, 2002**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Canton City School District (the "District") operates under a locally elected five-member board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. The board oversees the operations of the District's twenty-four instructional/support facilities.

The District ranks as the 12th largest by enrollment among the 705 public and community school districts in the State. The District employs 777 non-certified and 1,065 certified employees to provide services to approximately 12,503 students and community groups.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". When applying GASB Statement No. 14, management has considered all potential component units. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. Based upon the application of this criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (the primary government).

B. Fund Accounting

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

GOVERNMENTAL FUNDS

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

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Classroom Facilities - This fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following are the District's nonmajor proprietary funds:

Enterprise Funds - The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District's nonmajor enterprise funds are:

Food Service Fund - This fund accounts for the financial transactions related to the food service operations of the District.

Adult Education Fund - This fund accounts for educational opportunities offered on a tuition basis to preschoolers, youths and adults living within the community.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

Internal Service Funds - The internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis.

FIDUCIARY FUNDS

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

C. Basis of Presentation

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

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

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund financial 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, 2002

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

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

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

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

D. Basis of Accounting

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as donated commodities 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.

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2002 is as follows.

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Stark County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the final budgeted amount in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2002.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

4. By July 1, the Annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated, increased or decreased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2002.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the fund level.

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end (not already recorded in accounts payable) are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

F. Cash and Investments

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

During fiscal year 2002, investments were limited to federal agency securities, repurchase agreements, commercial paper, U.S. government money market mutual funds, non-negotiable certificates of deposit 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 and non-negotiable certificates of deposit are reported at cost.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

The District has invested funds in STAR Ohio during fiscal 2002. 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, 2002.

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 2002 amounted to \$1.0 million which includes \$640,000 assigned from other District funds.

For purposes of the statement of cash flows and for presentation on the Statement of Net Assets, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

G. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of proprietary funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District increased its capitalization threshold from five hundred dollars to five thousand dollars for its general fixed assets during fiscal 2002. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is not capitalized.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	20 years	N/A
Buildings/improvements	25 - 50 years	N/A
Furniture/equipment	5 - 20 years	5 - 20 years
Vehicles	6 - 10 years	N/A

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance 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 severance 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 severance payments has been calculated using pay rates in effect at June 30, 2002, and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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 judgements, compensated absences and future retirement 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 long-term loans are recognized as a liability in the fund financial statements when due.

L. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, inventories of supplies and materials, prepayments, property taxes unavailable for appropriation and Bureau of Workers Compensation (BWC) refunds. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Net Assets

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

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

N. Prepayments

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

O. Parochial Schools

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

P. Estimates

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

Q. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set aside to create a reserve for budget stabilization. See Note 17 for details.

R. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are tuition for adult education classes, sales for food service and charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

S. Capital Contributions

Capital contributions in proprietary fund financial statements arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

T. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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

U. 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 2002, the District incurred a transaction that would be classified as a special item. This special item relates to a loss on an exchange of capital assets (primarily land and buildings) between the District and the City of Canton. This loss is reflected in the Statement of Activities.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2002, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2001, there was no effect on fund balance as a result of implementing GASB Statements 37 and 38.

GASB No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2001, caused by the elimination of the internal service fund and the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Standards of GASB Statement No. 34. Certain funds previously reported as enterprise funds, internal service funds and expendable trust funds have been reclassified and are now part of the general fund and other nonmajor governmental funds. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2001.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported (Amounts in 000's):

	<u>General</u>	<u>Debt Service</u>	<u>Classroom Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance					
June 30, 2001	\$3,332	\$2,969	\$47,312	\$2,438	\$56,051
Fund reclassifications	56	-	-	192	248
Implementation of GASB					
Interpretation No. 6	<u>112</u>	<u>-</u>	<u>-</u>	<u>4</u>	<u>116</u>
Adjusted fund balance, June 30, 2001	<u>\$3,500</u>	<u>\$2,969</u>	<u>\$47,312</u>	<u>\$2,634</u>	<u>\$56,415</u>

The transition from governmental fund balances to net assets of the governmental activities is presented as follows (Amounts in 000's):

	<u>Total</u>
Adjusted fund balance, June 30, 2001	\$ 56,415
GASB 34 adjustments:	
Long-term (deferred) assets	117,249
Capital assets	50,474
Accrued interest payable	(135)
Internal service fund	996
Long-term liabilities	<u>(51,612)</u>
Governmental activities net assets, June 30, 2001	<u>\$173,387</u>

Business-Type Activities - Fund Reclassification and Restatement of Fund balance - Certain funds previously reported as enterprise funds and internal service funds are now reported in the general fund to properly reflect the intended purpose of the funds. In addition, capital assets previously reported in the Warehouse internal service fund are now reported in capital assets of the governmental activities and capital assets in the Food Service and Adult Education enterprise funds have been restated to correct errors and omissions in the prior fiscal year (Amounts in 000's).

	<u>Enterprise</u>	<u>Internal Service</u>
Fund equity as previously reported	\$ 4,898	\$1,000
Fund reclassification	(1,026)	(4)
Adjustment for capital assets	<u>(108)</u>	<u>-</u>
Restated net assets as of January 1, 2001	<u>\$ 3,764</u>	<u>\$ 996</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2002 included the following individual fund deficits (Amounts in 000's):

<u>Major Funds</u>	
General	\$1,464
<u>Nonmajor Funds</u>	
Children's Trust	6
Public School Preschool	61
Disadvantaged Pupil Impact Aid	825
Vocational Education	91
Title I	769
Drug-Free Schools	33
CAP (H.B. 810)	36
Community Education	6

These funds complied with Ohio state law, which does not permit cash basis deficits. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities. These deficits should be eliminated by future intergovernmental revenues not recognized under GAAP at June 30.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

Monies held by the District are classified into three categories.

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

Inactive deposits are public deposits the Board of Education has identified as not required for use within the current two-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 accounts, including passbook accounts.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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 or 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 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section 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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instruments rated in either of the two highest rating 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 five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand: At fiscal year-end, the District had \$10,000 in undeposited cash on hand, which is included on the combined balance sheet of the District as part of "Equity in pooled cash and investments".

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the District's deposits was \$3.745 million and the bank balance was \$4.552 million. These balances included \$4.0 million in nonnegotiable certificates of deposit. Of the bank balance:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

1. \$306,582 was covered by federal depository insurance; and
2. \$4.246 million was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments: Investments are categorized to give an indication of the level of custodial credit risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name. STAR Ohio and U.S. Government money market mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form. The following is a breakdown of the District's investments (Amounts in 000's):

	Category 3	Carrying Amount	Fair Value
Repurchase agreements	\$ 9,815	\$ 9,815	\$ 9,815
Federal agency securities	<u>49,812</u>	49,812	49,812
Total	<u>\$59,627</u>		
Investment in state treasurer's investment pool		14,980	14,980
U.S. government money market mutual funds		<u>8,392</u>	<u>8,392</u>
Total investments		<u>\$82,999</u>	<u>\$82,999</u>

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows (Amounts in 000's):

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$ 86,754	\$ -
Investments of the cash management pool:		
Repurchase agreements	(9,815)	9,815
Investment in STAR Ohio	(14,980)	14,980
Federal agency securities	(49,812)	49,812
U.S. Government money market mutual funds	(8,392)	8,392
Cash on hand	<u>(10)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ 3,745</u>	<u>\$82,999</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund loans receivable/payable consisted of the following at June 30, 2002, as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount (In 000's)</u>
General Fund	Nonmajor Governmental Funds	<u>\$2,528</u>

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

- B. Interfund transfers for the year ended June 30, 2002, consisted of the following, as reported on the fund statements:

	<u>Amount (In 000's)</u>
Transfers from general fund to:	
Nonmajor Governmental Funds	<u>\$328</u>

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

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year. Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the District.

Real property taxes and public utility taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements. Real property is assessed at 35% of market value; tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value.

The assessed value upon which the 2001 taxes were collected was \$832.645 million. Agricultural/residential and public utility real estate represented 48.40% or \$402.953 million of this total; commercial & industrial real estate represented 23.31% or \$194.061 million of this total; public utility tangible represented 5.19% or \$43.250 million of this total and general tangible property 23.10% or \$192.382 million of this total. The voted general tax rate for operations at the fiscal year ended June 30, 2002 was \$52.20 per \$1,000.00 of assessed valuation, \$2.50 per \$1,000.00 of assessed valuation for debt retirement, and \$4.50 per \$1,000.00 of assessed valuation for permanent improvements.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits later payment dates to be established.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 6 - PROPERTY TAXES - (Continued)

The Stark County Treasurer collects property tax on behalf of the District. The County Auditor periodically remits to the District its portion of the taxes collected. These tax "advances" are based on statutory cash flow collection rates. Final "settlements" are made each February and August. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represent delinquent taxes outstanding and real property, personal property and public utility taxes, which became measurable as of June 30, 2002. Although total property tax collections for the next fiscal year are measurable, they are not (exclusive of advances) intended to finance current year operations. The net receivable (total receivable less amount available intended to finance the current year) is therefore offset by a credit to deferred revenue. A total of \$789,000 was available to the District as an advance at June 30 and is recognized as revenue.

Taxes available for advance and recognized as revenue but not received by the District prior to June 30, 2002, are reflected as a reservation of fund balance for future appropriations. The District is prohibited, by law, from appropriating this revenue in accordance with ORC Section 5705.35, since an advance of revenue was not requested or received prior to the fiscal year-end.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2002 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows (Amounts in 000's):

Governmental Activities

Taxes - current and delinquent	\$ 36,223
Accounts	144
Intergovernmental	89,535
Accrued interest	<u>324</u>
Total receivables	<u>\$126,226</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year except for \$67,225 of the intergovernmental receivable from the Ohio School Facilities Commission.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities and business-type activities have been restated due to errors and omissions in the amount previously reported as capital assets and due to changes in the District's capital asset policy. See Note 2.H. for detail (Amounts in 000's):

	<u>Balance</u> <u>June 30, 2001</u>	<u>Additions/</u> <u>(Deductions)</u>	<u>Restated</u> <u>Balance</u> <u>June 30, 2001</u>
Governmental Activities			
Capital assets, not being depreciated:			
Land	\$ 16,214	\$ -	\$ 16,214
Construction in progress	<u>12,163</u>	<u>2,435</u>	<u>14,598</u>
Total capital assets, not being depreciated	<u>28,377</u>	<u>2,435</u>	<u>30,812</u>
Capital assets, being depreciated:			
Land improvements	5,486	(751)	4,735
Buildings/improvements	36,493	1,320	37,813
Furniture/equipment	22,059	(18,734)	3,325
Vehicles	<u>3,961</u>	<u>413</u>	<u>4,374</u>
Total capital assets, being depreciated	<u>67,999</u>	<u>(17,752)</u>	<u>50,247</u>
Less: accumulated depreciation	<u>(29,052)</u>	<u>-</u>	<u>(29,052)</u>
Governmental activities capital assets, net	<u>\$ 67,324</u>	<u>\$(15,317)</u>	<u>\$ 52,007</u>
Business-Type Activities			
Building	\$ 1,961	\$(1,961)	\$ -
Furniture/equipment	1,612	(913)	699
Less: accumulated depreciation	<u>(2,237)</u>	<u>1,760</u>	<u>(477)</u>
Total	<u>\$ 1,336</u>	<u>\$(1,114)</u>	<u>\$ 222</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2002, was as follows (Amounts in 000's):

	Restated Balance <u>June 30, 2001</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2002</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 16,214	\$ 900	\$ (6)	\$ 17,108
Construction in progress	<u>14,598</u>	<u>13,804</u>	<u>(12,750)</u>	<u>15,652</u>
Total capital assets, not being depreciated	<u>30,812</u>	<u>14,704</u>	<u>(12,756)</u>	<u>32,760</u>
Capital assets, being depreciated:				
Land improvements	4,735	47	(60)	4,722
Building/improvements	37,813	15,533	(868)	52,478
Furniture/equipment	3,325	990	-	4,315
Vehicles	<u>4,374</u>	<u>264</u>	<u>-</u>	<u>4,638</u>
Total capital assets, being depreciated	<u>50,247</u>	<u>16,834</u>	<u>(928)</u>	<u>66,153</u>
Less: accumulated depreciation:				
Land improvements	(935)	(115)	40	(1,010)
Buildings/improvements	(22,787)	(2,084)	601	(24,270)
Furniture/equipment	(2,022)	(467)	-	(2,489)
Vehicles	<u>(3,308)</u>	<u>(275)</u>	<u>-</u>	<u>(3,583)</u>
Total accumulated depreciation	<u>(29,052)</u>	<u>(2,941)</u>	<u>641</u>	<u>(31,352)</u>
Governmental activities capital assets, net	<u>\$ 52,007</u>	<u>\$28,597</u>	<u>\$(13,043)</u>	<u>\$ 67,561</u>
Business-Type Activities				
Capital assets, being depreciated:				
Furniture/equipment	\$ 699	\$ 78	\$ -	\$ 777
Less: accumulated depreciation	<u>(477)</u>	<u>(58)</u>	<u>-</u>	<u>(535)</u>
Business-type activities capital assets, net	<u>\$ 222</u>	<u>\$ 20</u>	<u>\$ -</u>	<u>\$ 242</u>

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

Instruction:

Regular	\$1,032
Special	213

Support Services:

Pupil	65
Instructional staff	115
Administration	201
Operations and maintenance of plant	200
Pupil transportation	502
Operation of non-instructional services	351
Extracurricular activities	<u>262</u>

Total depreciation expense \$2,941

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During a prior fiscal year, the District entered into capital lease agreements for the acquisition of a school bus and copier equipment. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, “Accounting for Leases”, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis.

Governmental activities capital assets consisting of copier equipment have been capitalized in the amount of \$80,000. This amount represents the present value of the future minimum lease payments at the time of acquisition.

A corresponding liability is recorded in the government-wide Financial Statements. Principal and interest payments in the 2002 fiscal year totaled \$46,000 and \$4,000, respectively. These amounts are reported as debt service payments of the general fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2002:

<u>Year Ending June 30,</u>	<u>General Long-Term Obligation</u>
2003	\$ 8,000
2004	8,000
2005	<u>2,000</u>
Total minimum lease payment	18,000
Less amount representing interest	<u>(1,000)</u>
Present value of minimum lease payments	<u>\$17,000</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During fiscal 2001, the District issued general obligation bonds to provide long-term financing of the construction and renovation of various school buildings in accordance with the terms of a Facilities grant from the Ohio Schools Facilities Commission (OSFC). The total project (hereafter “Construction Project”) encompasses the construction of nine new elementary schools, one new middle school, and a high school campus and the remodeling of five elementary schools, three middle schools and two high schools. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 3.7 mills bonded debt tax levy.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2002, the total estimated cost of the Construction Project is \$175.887 million, of which OSFC will pay approximately \$129.181 million.

In conjunction with the 3.7 mills which support the bond issue, the District also passed in fiscal 2001 a 0.8 mill levy to fund land acquisition. Tax revenue from this levy has been reported in the capital projects funds.

This issue is comprised of both current interest bonds, par value \$29.835 million, and capital appreciation bonds, par value \$2.110 million. The interest rates on the current interest bonds range from 4.35% to 5.625%. The capital appreciation bonds mature at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date.

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

	<u>Original Principal</u>	<u>Accreted Value at Maturity</u>	<u>Maturity Date</u>	<u>Effective Interest Rate</u>
Capital appreciation bond	\$204	\$ 425	12/1/05	15.29%
Capital appreciation bond	176	425	12/1/06	15.37%
Capital appreciation bond	150	420	12/1/07	15.47%
Capital appreciation bond	129	420	12/1/08	15.49%
Capital appreciation bond	<u>112</u>	<u>420</u>	12/1/09	15.51%
Total	<u>\$771</u>	<u>\$2,110</u>		

The present value (as of issue date) reported in the Statement of Net Assets at June 30, 2002 was \$771,000. As of June 30, 2002, a total of \$209,000 in accreted interest on the capital appreciation bonds has been included in the Statement of Activities.

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

The following is a schedule of activity for fiscal 2002 on the general obligation bonds (Amounts in 000's):

	<u>Balance June 30, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2002</u>
Current interest bonds	\$29,835	\$ -	\$(105)	\$29,730
Capital appreciation bonds	<u>848</u>	<u>131</u>	<u>-</u>	<u>979</u>
Total G.O. bonds	<u>\$30,683</u>	<u>\$131</u>	<u>\$(105)</u>	<u>\$30,709</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements to maturity for the 2001 series general obligation bonds (Amounts in 000's):

Fiscal Year Ending	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2003	\$ 280	\$ 1,609	\$ 1,889	\$ -	\$ -	\$ -
2004	325	1,595	1,920	-	-	-
2005	375	1,580	1,955	-	-	-
2006	-	1,571	1,571	425	-	425
2007	-	1,571	1,571	425	-	425
2008 - 2012	870	7,814	8,684	1,260	-	1,260
2013 - 2017	8,640	6,704	15,344	-	-	-
2018 - 2022	12,980	3,638	16,618	-	-	-
2023 - 2024	<u>6,260</u>	<u>357</u>	<u>6,617</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$29,730</u>	<u>\$26,439</u>	<u>\$56,169</u>	<u>\$2,110</u>	<u>\$ -</u>	<u>\$2,110</u>

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

(Amounts in 000's)

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The QZAB Series 2000 bonds bear no interest and the QZAB Series 2001 bonds require stated annual interest payments. During fiscal 2002, the District made \$1.115 million in sinking fund deposits. These deposits are maintained by the District until maturity of the QZABS in fiscal year 2014 and 2016. The resources being accumulated though the sinking fund are reported in the debt service fund.

- C. On June 1, 2002, the District issued \$6.165 million in tax anticipation notes. These notes bear an annual interest rate ranging from 3.25% - 5.00% and mature on June 1, 2013. These notes will be retired with future tax revenues of the Permanent Improvement capital projects fund. In accordance with GASB 34, these notes are considered long-term since the notes will be used for capital acquisition and construction. A summary of the tax anticipation note activity for the fiscal year ended June 30, 2002 follows (Amounts in 000's):

	<u>Principal Outstanding June 30, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding June 30, 2002</u>
Tax anticipation notes	\$ <u>-</u>	\$ <u>6,165</u>	\$ <u>-</u>	\$ <u>6,165</u>

The following is a summary of future debt service requirements to maturity for the tax anticipation notes:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ -	\$ 247	\$ 247
2004	510	234	744
2005	535	208	743
2006	560	186	746
2007	580	167	747
2008 - 2012	3,250	482	3,732
2013	<u>730</u>	<u>15</u>	<u>745</u>
Total	<u>\$6,165</u>	<u>\$1,539</u>	<u>\$7,704</u>

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

	<u>Balance June 30, 2001</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2002</u>	<u>Amounts Due in One Year</u>
Governmental Activities					
Compensated absences payable	\$ 3,851	\$ 821	\$ -	\$ 4,672	\$663
General obligation bonds payable	46,783	131	(105)	46,809	280
Notes payable	-	6,165	-	6,165	-
Capital lease obligation	<u>63</u>	<u>-</u>	<u>(46)</u>	<u>17</u>	<u>7</u>
Total governmental activities long-term liabilities	<u>\$50,697</u>	<u>\$7,117</u>	<u>\$(151)</u>	<u>\$57,663</u>	<u>\$950</u>
Business-Type Activities					
Compensated absences	\$ 81	\$ -	\$ (5)	\$ 76	\$ 2
Total business-type	<u>\$ 81</u>	<u>\$ -</u>	<u>\$ (5)</u>	<u>\$ 76</u>	<u>\$ 2</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Compensated absences will be paid from the fund from which the employee is paid.

E. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2002 are a voted debt margin of \$32.467 (including available funds of \$4.338 million) and an unvoted debt margin of \$833,000.

NOTE 11 - 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 25 days. Employees with less than one year of service earn one vacation day per month worked, not to exceed five 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). 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 to a maximum payout of 55 days for certified employees and 50 days for classified employees.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% coinsured. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Insurer</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
General liability:	Nationwide Insurance		
Each occurrence		\$ 1,000,000	\$ 1,000
Aggregate		\$ 3,000,000	\$ 1,000
Building and contents	Coregis Insurance Co.	\$217,677,160	\$10,000
Boiler and machinery	Cincinnati Insurance Co.	\$5,000,000	\$ 5,000
Fleet:	Nationwide Insurance		
Comprehensive		\$ 2,000,000	\$ 250
Collision		\$ 2,000,000	\$ 250
Umbrella liability	Nationwide Insurance	\$ 5,000,000	\$ 0

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from fiscal year 2001.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Health Care Self-Insurance Program

The self-insurance program for health care is administered by NABN and Aultcare. Payments are made to NABN and Aultcare for the actual amount of claims processed, monthly stop-loss premiums, and administrative charges. Operating revenues of the internal service fund consist of charges to other funds for an amount expected to be needed to cover claims and to provide for future catastrophe losses, policy stop-loss premiums, and other operating expenses. The portion of the charge relating to the cost needed to cover claims is calculated annually based on historical information and trend information.

The claims liability is \$834,000 reported in the internal service fund at June 30, 2002, is based on an estimate provided by the third party administrators and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows (Amounts in 000's):

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2002	\$819	\$8,695	\$(8,680)	\$834
2001	951	8,397	(8,529)	819

The District also participates in a self-insurance program for dental care and vision care.

C. Workers' Compensation Program

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

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

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2002	\$927	\$278	\$(294)	\$911
2001	532	831	(436)	927

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute 14% for 2002; 5.46% was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by state statute. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$2.146 million, \$2.030 million, and \$1.720 million, respectively; 41.89% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$1.247 million, represents the unpaid contribution for fiscal year 2002.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$8.186 million, \$7.867 million, and \$6.720 million, respectively; 82.27% has been contributed for fiscal year 2002 and 100% for the fiscal years 2001 and 2000. \$1.451 million, represents the unpaid contribution for fiscal year 2002.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go basis.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$2.631 million during fiscal 2002.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001 (the latest information available), net health care costs paid by STRS were \$300.772 million and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 were \$182.947 million and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$1.455 million during the 2002 fiscal year.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

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

	<u>General Fund</u>
Budget basis	\$(5,286)
Net adjustment for revenue accruals	(4)
Net adjustment for expenditure accruals	(877)
Net adjustment for other sources/uses	(848)
Adjustment for encumbrances	<u>2,045</u>
GAAP basis	<u>\$(4,970)</u>

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

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

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 16 - CONTINGENCIES - (Continued)

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2002, the reserve activity was as follows (Amounts in 000's):

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2001	\$ (34)	\$ -	\$293
Current year set-aside requirement	1,623	1,623	-
Current year offsets	-	-	-
Qualifying disbursements	<u>(2,219)</u>	<u>(1,856)</u>	<u>-</u>
Total	<u>\$ (630)</u>	<u>\$ (233)</u>	<u>\$293</u>
Balance carried forward to FY 2003	<u>\$ (630)</u>	<u>\$ -</u>	<u>\$293</u>

A schedule of the governmental fund restricted assets at June 30, 2002 follows (Amounts in 000's):

Amount restricted for BWC refunds	<u>\$293</u>
Total restricted assets	<u>\$293</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE 18 - CONTRACTUAL COMMITMENTS

As of June 30, 2002, the District has entered into various contractual commitments for the OSFC project described in Note 10.A. A summary of the primary contractual commitments outstanding at June 30, 2002, follows (Amounts in 000's):

<u>Project</u>	<u>Contractual Cost Estimate</u>	<u>Costs Incurred by June 30</u>	<u>Remaining Contractual Commitment</u>
Schreiber Elementary School	\$ 4,515	\$ 2,994	\$ 1,521
Allen Elementary School	7,674	1,388	6,286
Worley Elementary School	6,413	2,057	4,356
Lehman Middle School	14,417	415	14,002
Crenshaw Middle School	7,833	365	7,468
Gibbs Elementary School	7,314	322	6,992
Belden Elementary School	7,785	341	7,444
McKinley High School	16,022	1,024	14,998
Hartford Middle	6,071	248	5,823
Lathrop Elementary School	3,666	139	3,527
Harter Elementary	6,739	44	6,695
Summit Elementary	7,359	21	7,338
Youtz Elementary	3,077	6	3,071
Claredon Elementary	6,520	13	6,507
Souers Middle	8,161	16	8,145
McGregor Elementary	6,991	34	6,957
Timken High School	<u>10,000</u>	<u>3,076</u>	<u>6,924</u>
Totals	<u>\$130,557</u>	<u>\$12,503</u>	<u>\$118,054</u>

NOTE 19 - SIGNIFICANT SUBSEQUENT EVENTS

On December 1, 2002, the District made its second sinking fund payment on the QZAB's in the amount of \$991,660 and \$139,909 for eventual retirement the QZAB Series 2000 and QZAB Series 2001, respectively.

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Sub Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. Department of Education</u>						
<i>Direct</i>						
Impact Aid	84.041		\$ 29,337	\$ -	\$ 29,337	\$ -
Federal Pell Grant Program	84.063		364,354	-	371,773	-
Twenty-First Century Community Learning Centers	84.287		246,827	-	234,460	-
			<u>272,427</u>	<u>-</u>	<u>362,442</u>	<u>-</u>
Total Twenty-First Century Community Learning Centers			519,254	-	596,902	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		355,445	-	354,964	-
			<u>130,402</u>	<u>-</u>	<u>201,160</u>	<u>-</u>
Total Gaining Early Awareness and Readiness for Undergraduate Programs			485,847	-	556,124	-
<i>Passed Through the State</i>						
<i>Department of Education</i>						
Adult Education State Grant Program	84.002	043711ABS101	29,412	-	45,896	-
		043711ABS101C	91,618	-	91,618	-
		043711ABS202	39,150	-	39,150	-
		043711ABS102	<u>214,131</u>	<u>-</u>	<u>370,427</u>	<u>-</u>
Total Adult Education State Grant Program			374,311	-	547,091	-
Title I Grants to Local Education Agencies	84.010	043711C1S101	408,060	-	956,822	-
		043711C1S102	3,720,675	-	3,467,389	-
		043711C1S100C	-	-	15,564	-
		043711C1S101C	<u>392,949</u>	<u>-</u>	<u>456,326</u>	<u>-</u>
Total Title I Grants to Local Education Agencies			4,521,684	-	4,896,101	-
Title I Program for Neglected and Delinquent Children	84.013	043711C1SD01	24,523	-	26,105	-
		043711C1SD02	52,455	-	44,534	-
		043711C1SD00C	-	-	9,663	-
		043711C1SD01C	<u>-</u>	<u>-</u>	<u>5,125</u>	<u>-</u>
Total Title I Program for Neglected and Delinquent Children			76,978	-	85,427	-
Class Size Reduction	84.340	043711CRS101	219,429	-	333,035	-
		043711CRS100	58,216	-	91,302	-
		043711CRS102	<u>452,186</u>	<u>-</u>	<u>287,993</u>	<u>-</u>
Total Class Size Reduction			729,831	-	712,330	-
Special Education Cluster:						
Special Education Grants to States	84.027	0437116BSF01P	270,517	-	392,592	-
		0437116BSL01P	-	-	3,135	-
		0437116BST02P	75,000	-	60,384	-
		0437116BSF02P	1,126,732	-	872,228	-
		0437116BSF00P	<u>-</u>	<u>-</u>	<u>283</u>	<u>-</u>
Total Special Education Grants to States			1,472,249	-	1,328,622	-
Special Education Preschool Grants	84.173	043711PGS101P	7,032	-	12,718	-
		043711PGS102P	<u>100,634</u>	<u>-</u>	<u>86,532</u>	<u>-</u>
Total Special Education Preschool Grants			107,666	-	99,250	-
Total Special Education Cluster			1,579,915	-	1,427,872	-

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/ Sub Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Receipts</u>	<u>Non-Cash Receipts</u>	<u>Expenditures</u>	<u>Non-Cash Expenditures</u>
Vocational Education Basic Grants to States	84.048	04371120S2001	53,098	-	76,994	-
		04371120S2002	300,549	-	311,906	-
		04371120A2001	8,067	-	-	-
		04371120A2002	46,036	-	52,918	-
		04371120ONOW01	1,500	-	369	-
		04371120A001	21,080	-	-	-
		04371120ONOW02	14,500	-	15,000	-
Total Vocational Education Basic Grants to States			444,830	-	457,187	-
Education for Homeless Children and Youth	84.196	043711HCS101	25,982	-	32,742	-
		043711HCS102P	3,784	-	-	-
		043711HCS102	28,283	-	14,146	-
Total Education for Homeless Children and Youth			58,049	-	46,888	-
Even Start - State Educational Agencies	84.213	043711EVS401	62,185	-	70,880	-
		043711EVS102	222,668	-	214,623	-
Total Even Start - State Educational Agencies			284,853	-	285,503	-
Innovative Education Program Strategies	84.298	043711C2S101	-	-	70,660	-
		043711C2S102	101,490	-	89,657	-
		043711C2S100	-	-	1,352	-
Total Innovative Education Program Strategies			101,490	-	161,669	-
Eisenhower Professional Development State Grants	84.281	043711MSS101	52,758	-	44,131	-
		043711MSS102	71,426	-	53,413	-
		043711MSS100	-	-	1,424	-
Total Eisenhower Professional Development State Grants			124,184	-	98,968	-
Safe and Drug Free Schools and Communities State Grants	84.186	043711DRS101	21,853	-	29,907	-
		043711DRS102	97,033	-	105,336	-
Total Safe and Drug Free Schools and Communities State Grants			118,886	-	135,243	-
Goals 2000 State and Local Education Systemic Improvement Grants	84.276	043711G2S100	-	-	468	-
		043711G2S200	-	-	53,029	-
		043711G2S201	-	-	31,833	-
		043711G2S101	33,351	-	44,530	-
		043711G2SP01	1,000	-	932	-
		043711G2S901	10,000	-	-	-
		043711G2S301	42,000	-	24,462	-
		043711G2S501	18,000	-	-	-
Total Goals 2000 State and Local Education Systemic Improvement Grants			104,351	-	155,254	-
Technology Literacy Challenge Fund Grants	84.318	043711TF4301P	-	-	1,826	-
		043711TFVM00P	40,000	-	40,000	-
		043711TFVM01P	25,000	-	25,000	-
Total Technology Literacy Challenge Fund Grants			65,000	-	66,826	-
Reading Excellence	84.338	047311RNS100	275,000	-	684,873	-
Title I Accountability Grants	84.348	043711AKS101	20,158	-	21,638	-

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Sub Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
Fund for the Improvement of Education	84.215	043711PIS101 043711PIS102	-	-	5,924	-
			13,125	-	8,611	-
Total Fund for the Improvement of Education			13,125	-	14,535	-
Ohio Works First Transitional Agreement	93.561	043711JOB298 043711JBS198 043711JBS197	-	-	1,808	-
			-	-	33,048	-
			-	-	9,187	-
Total Ohio Works First Transitional Agreement			-	-	44,043	-
Total U.S. Department of Education			10,291,437	-	11,395,584	-
<u>U.S. Department of Agriculture</u>						
<i>(Direct)</i>						
Child and Adult Care Food Program	10.558		30,298	-	17,417	-
<i>Passed Through the State</i>						
<i>Department of Education</i>						
Child Nutrition Cluster:						
Food Distribution	10.550	N/A	-	245,187	-	245,425
National School Breakfast	10.553	043711-05PU	620,691	-	620,691	-
National School Lunch	10.555	043711-LLP4	3,119,108	-	3,119,108	-
Total Child Nutrition Cluster			3,739,799	245,187	3,739,799	245,425
Total U.S. Department of Agriculture			3,770,097	245,187	3,757,216	245,425
<u>U.S. Department of Labor</u>						
<i>Passed Through SDA No. 23</i>						
Workforce Investment Act	17.255	Youth - PY01-1610 Youth - PY01-1610	65,253	-	74,271	-
			14,773	-	5,983	-
Total U.S. Department of Labor			80,026	-	80,254	-
<u>U.S. Department of Health and Human Services</u>						
<i>Passed Through the Ohio Hunger Task Force</i>						
Child Care and Development Block Grant	93.575	121-2000 121-2000	-	-	810	-
			-	-	43,107	-
Total Child Care and Development Block Grant			-	-	43,917	-
<i>Passed Through the State Department of Mental Retardation and Development Disabilities</i>						
Social Service Block Grant	93.667	7600340	1,334,813	-	1,334,813	-
Total U.S. Department of Health and Human Services			1,334,813	-	1,378,730	-
Ohio Department of Development						
<i>Direct</i>						
Energy Smart Schools - Applied Research, Field Testing and Technology Integration	81.046		59,571	-	79,171	-
Total Federal Assistance			\$ 15,535,944	\$ 245,187	\$ 16,690,955	\$ 245,425

The accompanying notes are an integral part of this statement.

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Receipts and Expenditures of Federal Awards (Schedule) is a summary of the activity of the District's federal award programs. Except for the Job Training Partnership Grant CFDA No. 17.255, which is accounted for on the accrual basis, the Schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. Monies are commingled with state grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Canton City School District
Stark County
617 McKinley Avenue, SW
Canton, Ohio 44707

To the Board of Education:

We have audited the basic financial statements of Canton City School District, Stark County, Ohio (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated March 19, 2003, in which we noted the District adopted Governmental Accounting Standards Board Statement 34. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2002-11276-001.

We also noted other immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 19, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2002-11276-002 through 2002-11276-005.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control over the financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 19, 2003.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 19, 2003



**Auditor of State
Betty Montgomery**

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

Canton City School District
Stark County
617 McKinley Avenue, SW
Canton, Ohio 44707

To the Board of Education:

Compliance

We have audited the compliance of Canton City School District, Stark County, Ohio (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2002.

However, we noted certain immaterial instances of federal noncompliance that we have reported to management of the District in a separate letter dated March 19, 2003.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 19, 2003.

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



Betty Montgomery
Auditor of State

March 19, 2003

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness 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)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title I - CFDA #84.010, Reading Excellence Act – CFDA #84.338, and Adult Education State Grant Program – CFDA #84.002
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 508,891 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2002-11276-001

Finding for Recovery

During our review of the 2001-2002 teachers' contract, which was effective beginning September 20, 2001, we noted Ms. Billi J. Snyder's, First Grade Teacher Belden Elementary School, annualized salary was scheduled to be \$25,125 or nearly \$1,047 each pay. Our audit procedures determined that certain standing data within the District's payroll computer system was improperly altered and for the 23 pay dates from October 26, 2001 through August 30, 2002, Ms. Snyder's biweekly salary was incorrectly increased to \$1,496, which resulted in over payments to her totaling \$10,327. Beginning September 1, 2002, Ms. Snyder's biweekly pay in the District's payroll system reconciled to her fiscal year 2003 teachers' contract.

The District maintains a Payroll Department whose responsibilities, in part, are to ensure the District's employees are paid commensurately with their respective salary schedules or contracts and to reconcile the payroll records with the payroll bank account. The Payroll Department is supervised by Judy Robinson.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued jointly and severally against Billi J. Snyder, First Grade Teacher; Judy Robinson, Payroll Supervisor; and the Indiana Insurance Company in the amount of \$10,327 and in favor of the Canton City School District's General Fund.

The District should perform more extensive reviews to ensure other over payment problems do not exist related to the payroll schedules for other employees. In addition, the Payroll Department should also periodically generate edit reports and review those reports to ensure all changes to the payroll system are appropriate. Also, the District commenced withholding a certain amount from Ms. Snyder's bi-weekly pay beginning pay period ended March 29, 2003.

This matter will be referred to the City of Canton Law Director's Office and the Ohio Office of the Attorney General for whatever action is deemed appropriate.

FINDING NUMBER 2002-11276-002

Reportable Condition - Payroll Bank Account Reconciliation

The District's Payroll Department has not reconciled the payroll bank account timely, completely, or maintained adequate supporting documentation for numerous long-standing reconciling items. The District's Payroll Department did not perform reconciliations from October 2001 through March 2002. In addition, the June 30, 2002 reconciliation reflects 40 reconciling items ranging up to approximately \$12,000. Of the 40 reconciling items, 23 items representing approximately \$2,800, were not supported by underlying documentation.

The June 2002 overall District bank reconciliation reflected two payroll reconciling items with an approximate \$13,000 net effect. The District is also uncertain of the origin or detail of a \$47,000 reconciling item; however, based upon assertions from select Payroll Department employees', they believe this reconciling item represents annuities and/or retirement withholdings not remitted to the appropriate agencies. As for the origin or detail of a \$60,000 reconciling item, the Payroll Supervisor believes this cumulative item consists of certain payroll checks issued in error which were subsequently detected and corrected within the payroll and accounting records but not updated on the bank reconciliation. Finally, the Treasurer does not include the District's bank reconciliation in the Financial Statement Report provided to the Board of Education.

FINDING NUMBER 2002-11276-002 (continued)

Reportable Condition - Payroll Bank Account Reconciliation (continued)

The District should investigate these and other reconciling items on the June 30, 2002 bank reconciliations and clear them as appropriate. Going forward, the District should complete timely and thorough bank reconciliations. The District should also ensure all reconciling items are sufficiently supported by documentation. Finally, the Treasurer should include the monthly reconciliation in the Financial Statement Report so the Board can be kept informed of the financial position of the District. This will help improve financial accountability for all payroll and payroll related expenditures and reduce the risk of misappropriation of District assets.

FINDING NUMBER 2002-11276-003

Reportable Condition - Payroll History Usage and Access

District Payroll Department staff members responsible for payroll processing can access the payroll history file without authorization. Throughout the fiscal year, various Payroll Department staff members accessed and altered the payroll history file to correct routine posting errors. As a result of this unrestricted and unmonitored access, the payroll history file was altered without being subject to authorization.

To reduce the risk of unauthorized payroll history file modifications, the District should limit access to an approved listing of Payroll Department staff members. Also, routine alterations should not be made directly to the payroll history file. Rather, those alterations should be made in such a way that payroll transaction "audit trail" is maintained. This will help reduce the risk of unauthorized payroll history file modifications.

FINDING NUMBER 2002-11276-004

Reportable Condition - Capital Asset Records

During testing of capital assets, the following issues were noted:

- Certain capital assets recorded in the District's capital asset system had one or more of the following components excluded: identification number, asset description, acquisition date and cost, useful life, etc.;
- Certain capital assets were not initially assigned a useful life resulting in an understatement of accumulated depreciation and current year depreciation expense totaling approximately \$5.5 million and \$1.5 million, respectively;
- The useful life of 25 to 50 years assigned to buildings is not representative of the actual lives of the various buildings within the District.
- Depreciation expense for furniture and equipment was allocated to the expense functions based on the building depreciation allocation percentages;
- Certain capital assets purchased were inappropriately assigned the same identification number;
- Several capital asset disposals totaling approximately \$500,000 were not removed from the District's capital asset system;
- Construction in progress was understated by approximately \$3.1 million because the incorrect OSFC Construction Cost Estimate reports were utilized; and
- The costs of 3 new school buildings reflected on the District's capital asset system were understated by roughly \$1.8 million.

**FINDING NUMBER 2002-11276-004
(Continued)**

Reportable Condition - Capital Asset Records (Continued)

As a result, there is a lack of accountability and effective monitoring by the District's Business Department over the purchase, sale and movement of capital assets within the District. The District should perform the following:

- Capital assets should include an identification number, capital asset description, acquisition date and cost, useful life, etc.;
- Capital assets should be assigned a useful life that is representative of the actual life of the District capital asset items;
- Capital assets should be assigned separate identification numbers;
- Capital asset disposals should be monitored and reflected within the District's capital asset system timely;
- For financial reporting purposes, construction in progress estimates should be as of June 30; and
- Capital assets should be recorded at purchase price or fair market value at the time of acquisition or donation.

This will help improve capital asset accountability and monitoring by the District's Business Department. A similar matter was included in the District's Management Letter for the period ended June 30, 2001.

FINDING NUMBER 2002-11276-005

Reportable Condition - Encumbrance of Ohio School Facilities Commission Projects

During fiscal year 2002, the District entered into multiple construction contracts to renovate existing school buildings and construct certain new buildings. The District appropriated and subsequently encumbered approximately \$53 million. However, many of the contracts extended beyond the fiscal year and into the succeeding fiscal year. As a result, the District prematurely recognized approximately \$21 million as fiscal year 2002 Major Capital Projects Classroom Facilities Fund encumbrances versus recognizing only those amounts expected to be obligated during the fiscal year.

The District should appropriate and subsequently certify only those amounts expected to be obligated during each fiscal year. The District should actively monitor the status of the projects and appropriately amend appropriations and certifications as needed. Reserves for Encumbrances were subsequently adjusted on the District's financial statements. However, the District should amend its Certificate of the Total Amount from all Sources Available for Expenditures and Balances, Amended Official Certificate of Estimated Resources, and its Annual Appropriation Resolution for fiscal year 2003 and re-file those documents with the Budget Commission, as necessary. This will help ensure that the District's obligations are reported in the proper accounting period.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.315 (b) AND GAGAS
JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-11276-001	Ohio Rev. Code 5705.41(D) , 53% of expenditures tested were not certified prior to incurring the commitment	Yes	Corrected
2001-11276-002	Ohio Rev. Code Section 5705.10 , certain Special Revenue Funds, Capital Projects Funds and an Enterprise Fund incurred negative fund cash deficits	Yes	Finding No Longer Valid
2001-11276-003	Payroll and Treasurer's office Bank Account Reconciliations – The District's Payroll Department did not reconcile the payroll bank account timely, completely, or maintained adequate supporting documentation for all reconciling items. Additionally, the District's overall bank reconciliation reflected four unsupported payroll reconciling items	No	Not Corrected
2001-11276-004	Title III of the Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999, Pub. L. No. 105-277, Section 307 (c) (1) , a certain administrator's salary was inappropriately paid with grant monies.	Yes	Finding No Longer Valid



**Auditor of State
Betty Montgomery**

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CANTON CITY SCHOOL DISTRICT

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 8, 2003**