



**Auditor of State
Betty Montgomery**

**NORTH CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet	
Governmental Funds.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances	
Governmental Funds.....	17
Statement of Revenues, Expenditures and Changes in	
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)	
General Fund.....	19
Statement of Fiduciary Net Assets	
Fiduciary Funds.....	20
Statement of Changes in Fiduciary Net Assets	
Fiduciary Funds.....	21
Notes to the Basic Financial Statements.....	22
Federal Awards Receipts and Expenditures Schedule.....	47
Notes to the Federal Awards Receipts and Expenditures Schedule.....	48
Independent Accountants' Report on Internal Control Over	
Financial Reporting and on Compliance and Other Matters	
Required by <i>Government Auditing Standards</i>	49
Independent Accountants' Report on Compliance with Requirements	
Applicable to Its Major Federal Program and on Internal Control Over	
Compliance in Accordance with OMB Circular A-133.....	51
Schedule of Findings.....	53

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

North Canton City School District
Stark County
525 Seventh Street NE
North Canton, Ohio 44720

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Canton City School District, Stark County, Ohio, (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of North Canton City School District, Stark County, Ohio, as of June 30, 2005, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund and 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, 2005, the District implemented Governmental Accounting Standards Board Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers* which resulted in the restatement of the Major General Fund and certain other governmental funds beginning fund balances as of July 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditures Schedule 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.



Betty Montgomery
Auditor of State

December 23, 2005

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of the North 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, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$160,285 which represents a 4.51% increase from 2004.
- General revenues accounted for \$36,367,622 in revenue or 88.96% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,515,143 or 11.04% of total revenues of \$40,882,765.
- The District had \$40,722,480 in expenses related to governmental activities; only \$4,515,143 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 \$36,367,622 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$34,930,939 in revenues, and \$35,241,679 in expenditures and other financing uses. During fiscal 2005, the general fund's fund deficit balance increased \$294,162 from \$1,649,630 to \$1,943,792.
- The debt service fund had \$2,111,916 in revenues and other financing sources, and \$2,134,624 in expenditures. During fiscal 2005, the debt service fund's fund balance decreased \$22,708 from \$1,057,526 to \$1,034,818.

Using the 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. In the case of the District, the general fund and debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation of non-instructional services, extracurricular activities, intergovernmental pass-through and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial 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 basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

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. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-46 of this report.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 25,254,474	\$ 26,050,869
Capital assets	<u>23,250,880</u>	<u>23,405,078</u>
Total assets	<u>48,505,354</u>	<u>49,455,947</u>
<u>Liabilities</u>		
Current liabilities	24,401,517	24,902,967
Long-term liabilities	<u>20,391,495</u>	<u>21,000,923</u>
Total liabilities	<u>44,793,012</u>	<u>45,903,890</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	6,856,085	6,000,283
Restricted	1,549,056	1,325,861
Unrestricted (deficit)	<u>(4,692,799)</u>	<u>(3,774,087)</u>
Total net assets	<u>\$ 3,712,342</u>	<u>\$ 3,552,057</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$3,712,342. At year-end, restricted net assets were \$1,549,056.

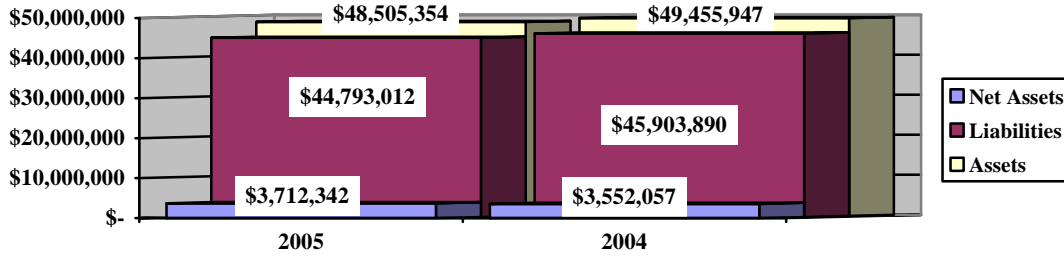
At year-end, capital assets represented 47.93% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$6,856,085. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$1,549,056, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$4,692,799.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Governmental Activities



The table below shows the change in net assets for fiscal years 2005 and 2004.

Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 2,400,328	\$ 2,142,512
Operating grants and contributions	2,077,120	1,774,593
Capital grants and contributions	37,695	-
General revenues:		
Property taxes	19,968,995	19,615,456
Grants and entitlements	15,831,130	15,593,454
Investment earnings	115,409	46,714
Other	452,088	538,459
Total revenues	<u>\$ 40,882,765</u>	<u>\$ 39,711,188</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Change in Net Assets

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	17,597,928	17,357,959
Special	3,138,271	3,256,731
Vocational	1,457,652	1,379,345
Adult	7,460	-
Other	53,262	75,161
Support services:		
Pupil	2,042,833	1,611,403
Instructional staff	2,186,382	2,126,538
Board of education	29,812	84,392
Administration	2,985,613	2,597,526
Fiscal	885,189	876,283
Business	87,069	50,895
Operations and maintenance	3,719,193	4,118,563
Pupil transportation	2,340,651	2,234,370
Central	430,692	439,097
Operations of non-instructional services	49,172	53,464
Food service operations	1,213,240	1,148,596
Extracurricular activities	992,180	926,651
Intergovernmental pass through	285,103	261,653
Interest and fiscal charges	<u>1,220,778</u>	<u>1,253,645</u>
Total expenses	<u>40,722,480</u>	<u>39,852,272</u>
Change in net assets	160,285	(141,084)
Net assets at beginning of year	<u>3,552,057</u>	<u>3,693,141</u>
Net assets at end of year	<u>\$ 3,712,342</u>	<u>\$ 3,552,057</u>

Governmental Activities

Net assets of the District's governmental activities increased \$160,285. Total governmental expenses of \$40,722,480 were offset by program revenues of \$4,515,143 and general revenues of \$36,367,622. Program revenues supported 11.09% of the total governmental expenses.

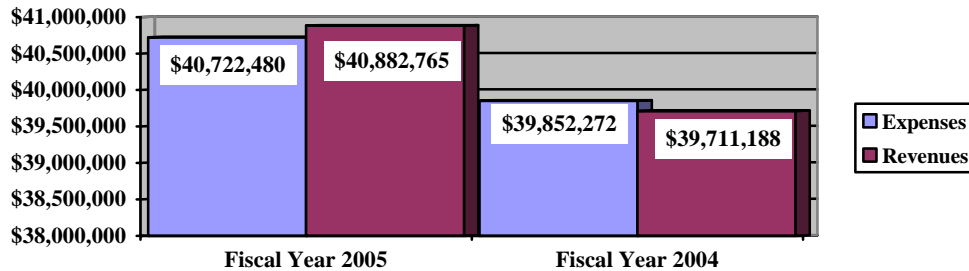
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 87.57% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

Governmental Activities - Revenues and Expenses



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.

Governmental Activities

	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses				
Instruction:				
Regular	\$ 17,597,928	\$ 16,797,496	\$ 17,357,959	\$ 16,695,833
Special	3,138,271	2,863,330	3,256,731	2,929,841
Vocational	1,457,652	1,396,625	1,379,345	1,334,393
Adult	7,460	7,460	-	-
Other	53,262	24,248	75,161	45,431
Support services:				
Pupil	2,042,833	1,511,306	1,611,403	1,350,966
Instructional staff	2,186,382	1,788,041	2,126,538	1,775,742
Board of education	29,812	29,812	84,392	84,392
Administration	2,985,613	2,515,165	2,597,526	2,246,884
Fiscal	885,189	885,189	876,283	876,283
Business	87,069	87,069	50,895	50,895
Operations and maintenance	3,719,193	3,680,505	4,118,563	4,118,563
Pupil transportation	2,340,651	2,340,651	2,234,370	2,234,370
Central	430,692	387,927	439,097	396,547
Operations of non-instructional services	49,172	22,928	53,464	34,803
Food service operations	1,213,240	(6,634)	1,148,596	(8,580)
Extracurricular activities	992,180	629,417	926,651	493,808
Intergovernmental pass through	285,103	26,024	261,653	21,351
Interest and fiscal charges	1,220,778	1,220,778	1,253,645	1,253,645
Total expenses	<u>\$ 40,722,480</u>	<u>\$ 36,207,337</u>	<u>\$ 39,852,272</u>	<u>\$ 35,935,167</u>

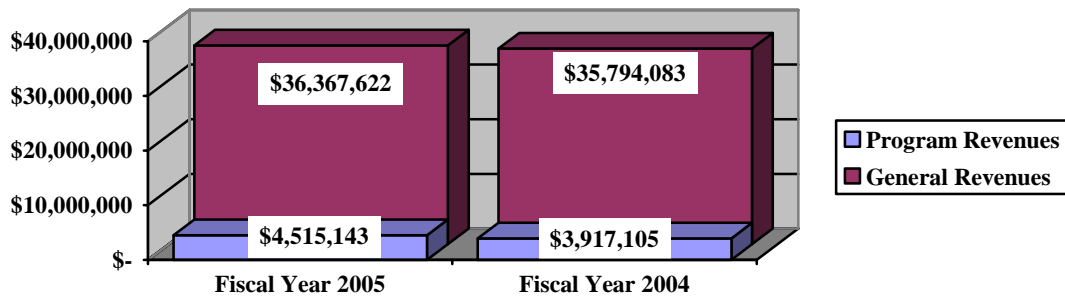
**NORTH CANTON CITY SCHOOL DISTRICT
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 94.76% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 88.91%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2005 and 2004.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$175,973, which is lower than last year's total of \$444,144. The June 30, 2004 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	Increase <u>(Decrease)</u>
General	\$ (1,943,792)	\$ (1,649,630)	\$ (294,162)
Debt Service	1,034,818	1,057,526	(22,708)
Other Governmental	<u>1,084,947</u>	<u>1,036,248</u>	<u>48,699</u>
Total	<u>\$ 175,973</u>	<u>\$ 444,144</u>	<u>\$ (268,171)</u>

General Fund

The District's general fund balance decreased \$294,162. The decrease in fund balance can be attributed primarily to an increase in expenditures coupled with minimal growth in revenues. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

	2005	Restated 2004	Increase	Percentage
	<u>Amount</u>	<u>Amount</u>	<u>(Decrease</u>	<u>Change</u>
<u>Revenues</u>				
Taxes	\$ 18,269,322	\$ 18,149,788	\$ 119,534	0.66 %
Tuition	430,678	387,667	43,011	11.09 %
Earnings on investments	110,626	43,690	66,936	153.21 %
Intergovernmental	15,628,767	15,415,156	213,611	1.39 %
Other revenues	<u>491,546</u>	<u>572,172</u>	<u>(80,626)</u>	(14.09) %
Total	<u>\$ 34,930,939</u>	<u>\$ 34,568,473</u>	<u>\$ 362,466</u>	1.05 %
<u>Expenditures</u>				
Instruction	\$ 20,685,533	\$ 20,365,173	\$ 320,360	1.57 %
Support services	13,048,091	12,610,896	437,195	3.47 %
Operation of non-instructional services	23,485	33,948	(10,463)	(30.82) %
Extracurricular activities	623,674	591,228	32,446	5.49 %
Facilities acquisition and construction	<u>593,616</u>	<u>1,031,236</u>	<u>(437,620)</u>	(42.44) %
Total	<u>\$ 34,974,399</u>	<u>\$ 34,632,481</u>	<u>\$ 341,918</u>	0.99 %

Debt Service Fund

The debt service fund had \$2,111,916 in revenues and other financing sources and \$2,134,624 in expenditures. During fiscal 2005, the debt service fund's fund balance decreased \$22,708 from \$1,057,526 to \$1,034,818. The decrease in fund balance can be attributed to debt retirement which is detailed in Note 9 to the basic financial statements.

General Fund Budgeting Highlights

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

During the course of fiscal 2005, the District amended its general fund budget numerous times. For the general fund, original budgeted revenues and other financing sources of \$35,463,065 were decreased to \$35,035,525 in the final budget. Actual revenues and other financing sources for fiscal 2005 was \$34,888,268. This represents a \$147,257 decrease from final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$36,246,367 were increased to \$36,303,775 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$35,968,371, which was \$335,404 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$23,250,880 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

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

	Governmental Activities	
	2005	2004
Land	\$ 1,785,562	\$ 1,785,562
Land improvements	806,196	835,157
Building and improvements	19,506,101	19,595,490
Furniture and equipment	405,011	368,274
Vehicles	748,010	820,595
Total	\$ 23,250,880	\$ 23,405,078

Total additions to capital assets for 2005 were \$917,156. The District recorded \$1,071,354 in depreciation expense for fiscal 2005.

Refer to Note 8 in the basic financial statements for further detail on the District's capital assets.

Debt Administration

At June 30, 2005, the District had \$18,157,282 in general obligation bonds outstanding. Of this total, \$1,090,000 is due within one year and \$17,067,282 is due within greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities 2005	Governmental Activities 2004
General obligation bonds	\$ 18,157,282	\$ 18,776,993
Energy conservation bonds	-	260,000
Total	\$ 18,157,282	\$ 19,036,993

At June 30, 2005, the District's voted debt margin was \$41,285,987 with an unvoted debt margin of \$648,983.

See Note 9 to the basic financial statements for further detail on the District's debt administration.

Current Financial Related Activities

The District has continued to maintain the highest standards of service to our students, parents and community. The District is always presented with challenges and opportunities. National events economically continue to affect the District and the surrounding area. The District is still reviewing and analyzing the impact this has on its personal property tax base and collections.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The District's financial outlook is beginning to change. During this time, the Board of Education and administration will continue to closely monitor its revenues and expenditures to ensure they are in accordance with its financial forecast. Overall, the District continues to perform at the highest level determined by the State of Ohio, which is measured by a defined set of proficiency criteria. Our most recent state report card shows the district students achieving a perfect 23 out of 23 and an "Excellent" rating for the 5th straight year.

The District has communicated to the community that they rely upon their support for the major part of its operations, and will continue to work diligently to plan expenses, staying carefully within the District's five-year financial plan. State law limits the growth of income generated by local levies rendering revenue relatively constant. This lack of revenue growth forces the District to come back to the voters from time to time and ask for additional financial support. The last time the District requested taxpayers to approve a local levy was in November of 2001.

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 additional revenue growth toward the support of School Districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not "equitable" or "adequate." The Court directed the Governor and the legislature to address the fundamental issues creating the inequities. In September 2001, the Ohio Supreme Court issued an opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order. The State of Ohio, in a motion filed September 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that change be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. On December 11, 2002, the 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 State funding and its financial operations.

In addition to the uncertainty of State funding, the Amended Substitute House Bill 95 (HB95), effective June 26, 2003, authorized the phase-out of the \$10,000 exemption reimbursement of Personal Tangible values. This reduction, coupled with an Inventory Assessment Rate phase-out and the current down-turn in the economy, will cause our revenues in the area of Tangible Personal Property Taxes to begin to decrease on an annual basis as opposed to annual increases.

As a result, all of the District's financial abilities will be called upon to meet the challenges the future will bring. It is imperative the District's Board of Education and administration continue to carefully and prudently plan in order to provide the resources required to meet the student's desired needs over the next several years.

Contacting the District's Financial Management

This financial report is designed to provide our citizens taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Todd Tolson, Treasurer, North Canton Local School District, 525 7th Street NE, North Canton, Ohio 44720.

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

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 4,451,894
Receivables:	
Taxes	20,363,669
Accounts	6,218
Intergovernmental	355,009
Materials and supplies inventory	77,684
Capital assets:	
Land	1,785,562
Depreciable capital assets, net	21,465,318
Capital assets, net	23,250,880
 Total assets.	 48,505,354
Liabilities:	
Accounts payable.	72,241
Accrued wages and benefits	4,408,499
Pension obligation payable.	940,974
Intergovernmental payable	267,544
Deferred revenue	18,646,359
Accrued interest payable	65,900
Long-term liabilities:	
Due within one year.	1,376,613
Due within more than one year	19,014,882
 Total liabilities	 44,793,012
Net Assets:	
Invested in capital assets, net of related debt.	6,856,085
Restricted for:	
Capital projects	115,331
Debt service.	1,066,298
Locally funded programs	13,289
State funded programs.	49,216
Federally funded programs	17,676
Other purposes	287,246
Unrestricted (deficit)	(4,692,799)
 Total net assets	 \$ 3,712,342

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 17,597,928	\$ 636,260	\$ 164,172	\$ -	\$ (16,797,496)
Special	3,138,271	-	274,941	-	(2,863,330)
Vocational	1,457,652	-	61,027	-	(1,396,625)
Adult	7,460	-	-	-	(7,460)
Other	53,262	29,014	-	-	(24,248)
Support services:					
Pupil	2,042,833	-	531,527	-	(1,511,306)
Instructional staff	2,186,382	2,541	395,800	-	(1,788,041)
Board of education	29,812	-	-	-	(29,812)
Administration	2,985,613	371,922	98,526	-	(2,515,165)
Fiscal	885,189	-	-	-	(885,189)
Business	87,069	-	-	-	(87,069)
Operations and maintenance	3,719,193	-	993	37,695	(3,680,505)
Pupil transportation	2,340,651	-	-	-	(2,340,651)
Central	430,692	-	42,765	-	(387,927)
Operation of non-instructional					
services	49,172	-	26,244	-	(22,928)
Food service operations	1,213,240	997,828	222,046	-	6,634
Extracurricular activities	992,180	362,763	-	-	(629,417)
Intergovernmental	285,103	-	259,079	-	(26,024)
Interest and fiscal charges	1,220,778	-	-	-	(1,220,778)
Total governmental activities	\$ 40,722,480	\$ 2,400,328	\$ 2,077,120	\$ 37,695	(36,207,337)

General Revenues:

Property taxes levied for:	
General purposes	18,314,742
Debt service	1,654,253
Grants and entitlements not restricted	
to specific programs	15,831,130
Investment earnings	115,409
Miscellaneous	452,088
Total general revenues	36,367,622
Change in net assets	160,285
Net assets at beginning of year	3,552,057
Net assets at end of year	\$ 3,712,342

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 2,005,190	\$ 902,018	\$ 1,257,440	\$ 4,164,648
Receivables:				
Taxes	18,606,037	1,757,632	-	20,363,669
Accounts	6,218	-	-	6,218
Intergovernmental	39,182	-	315,827	355,009
Interfund loans	88,727	-	-	88,727
Materials and supplies inventory	65,334	-	12,350	77,684
Restricted assets:				
Equity in pooled cash and cash equivalents	287,246	-	-	287,246
Total assets	\$ 21,097,934	\$ 2,659,650	\$ 1,585,617	\$ 25,343,201
Liabilities:				
Accounts payable	\$ 57,356	\$ -	\$ 14,885	\$ 72,241
Accrued wages and benefits	4,097,651	-	310,848	4,408,499
Interfund loans payable.	-	-	88,727	88,727
Compensated absences payable	232,617	-	-	232,617
Pension obligation payable.	884,457	-	56,517	940,974
Intergovernmental payable	252,968	-	14,576	267,544
Retirement incentive payable.	100,000	-	-	100,000
Deferred revenue	17,416,677	1,624,832	15,117	19,056,626
Total liabilities	23,041,726	1,624,832	500,670	25,167,228
Fund Balances:				
Reserved for encumbrances	500,763	-	112,940	613,703
Reserved for bus purchase allowance.	27,679	-	-	27,679
Reserved for materials and supplies inventory.	65,334	-	12,350	77,684
Reserved for property tax unavailable for appropriation	1,189,360	132,800	-	1,322,160
Reserved for instructional materials.	118,850	-	-	118,850
Reserved for debt service	-	902,018	-	902,018
Reserved for budget stabilization.	140,717	-	-	140,717
Unreserved, undesignated (deficit), reported in:				
General fund	(3,986,495)	-	-	(3,986,495)
Special revenue funds.	-	-	844,326	844,326
Capital projects funds.	-	-	115,331	115,331
Total fund balances	(1,943,792)	1,034,818	1,084,947	175,973
Total liabilities and fund balances	\$ 21,097,934	\$ 2,659,650	\$ 1,585,617	\$ 25,343,201

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$	175,973
<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.			23,250,880
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	395,150	
Intergovernmental revenue		<u>15,117</u>	
Total			410,267
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		18,157,282	
Compensated absences		1,901,596	
Accrued interest payable		<u>65,900</u>	
Total			<u>(20,124,778)</u>
Net assets of governmental activities		\$	<u><u>3,712,342</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH 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, 2005

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Taxes	\$ 18,269,322	\$ 1,642,273	\$ -	\$ 19,911,595
Tuition.	430,678	-	-	430,678
Earnings on investments.	110,626	-	6,553	117,179
Charges for services	-	-	997,828	997,828
Classroom materials and fees	35,448	-	267,901	303,349
Extracurricular.	7,735	-	591,523	599,258
Other local revenues.	448,363	-	72,940	521,303
Intergovernmental - Intermediate	-	-	49,671	49,671
Intergovernmental - State	15,628,767	202,363	496,443	16,327,573
Intergovernmental - Federal.	-	-	1,586,756	1,586,756
Total revenue	<u>34,930,939</u>	<u>1,844,636</u>	<u>4,069,615</u>	<u>40,845,190</u>
Expenditures:				
Current:				
Instruction:				
Regular.	16,429,423	-	301,196	16,730,619
Special	2,809,166	-	278,532	3,087,698
Vocational	1,416,971	-	68,332	1,485,303
Adult	7,460	-	-	7,460
Other	22,513	-	30,749	53,262
Support Services:				
Pupil	1,500,767	-	520,376	2,021,143
Instructional staff	1,798,599	-	393,348	2,191,947
Board of education	1,040	-	-	1,040
Administration	2,535,007	-	421,205	2,956,212
Fiscal	859,223	25,597	-	884,820
Business	52,463	-	34,606	87,069
Operations and maintenance	3,737,673	-	1,086	3,738,759
Pupil transportation	2,202,398	-	-	2,202,398
Central	360,921	-	70,417	431,338
Operation of non-instructional services	23,485	-	25,687	49,172
Food service operations	-	-	1,206,003	1,206,003
Extracurricular activities.	623,674	-	383,773	1,007,447
Facilities acquisition and construction	593,616	-	-	593,616
Intergovernmental pass through.	-	-	285,103	285,103
Debt service:				
Principal retirement	-	1,270,000	-	1,270,000
Interest and fiscal charges	-	839,027	-	839,027
Total expenditures.	<u>34,974,399</u>	<u>2,134,624</u>	<u>4,020,413</u>	<u>41,129,436</u>
Excess of revenues over (under) expenditures	(43,460)	(289,988)	49,202	(284,246)
Other financing sources (uses):				
Transfers in	-	267,280	-	267,280
Transfers (out).	(267,280)	-	-	(267,280)
Total other financing sources (uses)	<u>(267,280)</u>	<u>267,280</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(310,740)	(22,708)	49,202	(284,246)
Fund balances (deficit)				
at beginning of year (restated).	(1,649,630)	1,057,526	1,036,248	444,144
Increase (decrease) in reserve for inventory.	16,578	-	(503)	16,075
Fund balances (deficit) at end of year	<u>\$ (1,943,792)</u>	<u>\$ 1,034,818</u>	<u>\$ 1,084,947</u>	<u>\$ 175,973</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH 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, 2005

Net change in fund balances - total governmental funds \$ (284,246)

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

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

Capital asset additions	\$ 917,156	
Current year depreciation	<u>(1,071,354)</u>	
Total		(154,198)

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

Taxes	57,400	
Intergovernmental	<u>(19,825)</u>	
Total		37,575

Repayment of bond principal is an expenditure in the
governmental funds, but the repayment reduces long-term
liabilities on the statement of net assets. 1,270,000

In the statement of activities, interest is accrued on outstanding bonds, whereas
in governmental funds, interest is expensed when due. The following items
resulted in additional interest being reported on the statement of activities:

Decrease in accrued interest payable	8,538	
Accreted interest on capital appreciation bonds	<u>(390,289)</u>	
Total		(381,751)

Governmental funds report expenditures for inventory when
purchased, however, in the statement of activities, they are
reported as expenses when consumed. 16,075

Some expenses reported in the statement of activities,
such as compensated absences, do not require the use
of current financial resources and therefore are not
reported as expenditures in governmental funds. (343,170)

Change in net assets of governmental activities **\$ 160,285**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Taxes	\$ 18,547,473	\$ 18,323,866	\$ 18,247,422	\$ (76,444)
Tuition.	430,601	425,410	428,578	3,168
Earnings on investments.	44,537	44,000	110,626	66,626
Extracurricular.	6,174	6,100	7,735	1,635
Classroom materials and fees	34,111	33,700	35,448	1,748
Other local revenues.	368,059	363,622	414,314	50,692
Intergovernmental - State	16,023,419	15,830,241	15,628,767	(201,474)
Total revenue	<u>35,454,374</u>	<u>35,026,939</u>	<u>34,872,890</u>	<u>(154,049)</u>
Expenditures:				
Current:				
Instruction:				
Regular	16,809,999	16,774,436	16,633,499	140,937
Special.	2,832,847	2,839,911	2,817,195	22,716
Vocational.	1,414,038	1,452,608	1,427,872	24,736
Adult.	7,518	-	7,460	(7,460)
Other	22,963	37,357	22,787	14,570
Support Services:				
Pupil.	1,475,518	1,502,171	1,464,201	37,970
Instructional staff	1,790,042	1,827,041	1,776,313	50,728
Board of education	21,280	29,719	21,117	8,602
Administration.	2,464,130	2,512,973	2,461,727	51,246
Fiscal	865,570	862,190	858,932	3,258
Business	54,203	56,781	53,787	2,994
Operations and maintenance.	3,821,050	3,828,481	3,791,744	36,737
Pupil transportation	2,185,092	2,213,949	2,168,333	45,616
Central.	352,023	371,472	349,323	22,149
Operation of non-instructional services	26,756	31,623	26,875	4,748
Extracurricular activities.	623,578	589,537	618,795	(29,258)
Facilities acquisition and construction.	1,103,365	1,094,980	1,094,903	77
Total expenditures	<u>35,869,972</u>	<u>36,025,229</u>	<u>35,594,863</u>	<u>430,366</u>
Excess of revenues over (under) expenditures.	<u>(415,598)</u>	<u>(998,290)</u>	<u>(721,973)</u>	<u>276,317</u>
Other financing sources (uses):				
Refund of prior year expenditure	-	-	1,883	1,883
Transfers in	7,514	7,423	8,489	1,066
Transfers out	(276,826)	(274,703)	(274,703)	-
Advances in.	1,177	1,163	5,006	3,843
Advances out	(99,569)	(3,843)	(98,805)	(94,962)
Total other financing sources (uses)	<u>(367,704)</u>	<u>(269,960)</u>	<u>(358,130)</u>	<u>(88,170)</u>
Net change in fund balance	(783,302)	(1,268,250)	(1,080,103)	188,147
Fund balance at beginning of year	2,200,064	2,200,064	2,200,064	-
Prior year encumbrances appropriated	615,673	615,673	615,673	-
Fund balance at end of year	<u>\$ 2,032,435</u>	<u>\$ 1,547,487</u>	<u>\$ 1,735,634</u>	<u>\$ 188,147</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 365,169	\$ 124,528
Accrued interest receivable.	138	-
	365,307	124,528
Total assets	365,307	\$ 124,528
Liabilities:		
Accounts payable.	-	\$ 2,274
Due to students	-	122,254
	-	124,528
Total liabilities	-	\$ 124,528
Net Assets:		
Held in trust for scholarships	365,307	
Total net assets	\$ 365,307	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 7,527
Gifts and contributions.	27,125
	34,652
Total additions.	34,652
Deductions:	
Scholarships awarded	10,512
	24,140
Change in net assets	24,140
Net assets at beginning of year.	341,167
Net assets at end of year	\$ 365,307

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The North Canton City School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally elected Board form of government consisting of five members elected at-large for staggered four-year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District is the 70th largest in the State of Ohio (among 614 public school districts) in terms of enrollment. It is staffed by 250 non-certificated employees and 355 certificated full-time teaching personnel, who provide services to 4,736 students and other community members. The Board controls the District's eight school buildings, a bus garage, a warehouse, and an administration building.

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 activities 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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' 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 organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The following organizations are described due to their relationship to the District:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

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

PUBLIC ENTITY RISK POOLS

Shared Risk Pool

Stark County School Council of Governments Health Benefit Plan

The Stark County School Council of Governments Health Benefit Plan (Council) is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The Council is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the council. All council revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract.

Insurance Purchasing Pool

Stark County Schools Council of Governments Workers' Compensation Group Rating Plan

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The governing body is comprised of the superintendents and the members who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the District and the other group members. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to Comp Management, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member entity annually based on its payroll percent of the group.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

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

B. Fund Accounting - (Continued)

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond principal, interest and related costs.

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; (b) for food service and uniform school supplies operations; and (c) 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. The District has no proprietary funds.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, 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 a scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities and deposits held for outside entities.

C. Basis of Presentation and Measurement Focus

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.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

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

C. Basis of Presentation and Measurement Focus - (Continued)

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide 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 private-purpose trust fund is 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. 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.

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, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

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

D. Basis of Accounting (Continued)

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 received during the year is reported in the fund financial statements as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

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

Tax Budget:

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 express purpose of this budget document is to reflect the need for existing (or increased tax rates). By no later than January 20, the Board-adopted budget is filed with Stark County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' 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 the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts from the certificate of amended resources that was in effect at the time the original and final appropriations were passed by the Board of Education.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

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

E. Budgets - (Continued)

Appropriations:

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

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

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

Lapsing of Appropriations:

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all 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 Cash Equivalents" on the basic financial statements.

During fiscal year 2005, investments were limited to a repurchase agreement. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$110,626, which includes \$54,473 assigned from other District funds.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

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

F. Cash and Investments – (Continued)

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

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

G. Inventory

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

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

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

H. Capital Assets

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

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

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

Description	Governmental Activities Estimated Lives
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 30 years
Vehicles	8 years

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

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

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 activities column on the statement of net assets.

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the "vesting method". A liability for sick leave 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 this future severance eligibility, all employees with fifteen (15) years of service at any age were included.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions 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 loans are recognized on 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, materials and supplies inventory, debt service, budget stabilization, bus purchase allowance, instructional materials and property taxes unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The restriction for other purposes consist of monies restricted by state statute for set-asides and bus purchases (See Note 16).

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

N. Estimates

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

O. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for budget stabilization. See Note 16 for additional information regarding set-asides.

P. Interfund Activity

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

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

Q. Nonpublic Schools

Within the District boundaries, St. Paul School is operated through the Youngstown Catholic Diocese. Current state legislation provides funding to this parochial school. The monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The activity of these state monies by the District is reflected in a nonmajor governmental fund for financial reporting purposes.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change In Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major governmental funds of the District as they were previously reported as of June 30, 2004:

	General	Debt Service	Nonmajor	Total
Fund Balances, June 30, 2004	\$ (1,359,086)	\$ 1,057,526	\$ 1,086,226	\$ 784,666
GASB Technical Bulletin No. 2004-2	(290,544)	-	(49,978)	(340,522)
Restated Fund Balance, June 30, 2004	\$ (1,649,630)	\$ 1,057,526	\$ 1,036,248	\$ 444,144

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	Deficit
General	\$ 1,943,792
<u>Nonmajor Governmental Funds</u>	
Adult Education	686
Ohio Reads	2,091
Classroom Reduction	8,710

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances - (Continued)

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. These deficit fund balances result from adjustments for accrued liabilities. The deficit balance in the general fund will be eliminated by resources not recognized or recorded at fiscal year-end.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of 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.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 Treasurer's investment pool the State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

A. Deposits with Financial Institutions

At June 20, 2005, the carrying amount of all District deposits was \$1,726,591, exclusive of the \$3,215,000 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$1,742,590 of the District's bank balance of \$1,942,590 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

B. Investment

As of June 30, 2005, the District had the following investment and maturity:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturity 6 months or less</u>
Repurchase Agreement	<u>\$ 3,215,000</u>	<u>\$ 3,215,000</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investment - (Continued)

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 3,215,000	100.00%

C. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,726,591
Investments	<u>3,215,000</u>
Total	<u>\$ 4,941,591</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,451,894
Private-purpose trust funds	365,169
Agency funds	<u>124,528</u>
Total	<u>\$ 4,941,591</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 88,727

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.

- B.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Debt Service Fund	<u>\$ 267,280</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. The transfer to the debt service fund is to provide resources for the repayment of long-term debt principal and interest.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. 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 alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Stark County. The County Auditor periodically advances to the District the portion of the taxes collected. Second-half real property tax payments collected by the County Auditor by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available as an advance at June 30, 2005 was \$1,189,360 in the general fund and \$132,800 in the debt service fund. The amount that was available as advance at June 30, 2004 was \$1,167,460 in the general fund and \$116,210 in the debt service fund.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and ther real estate	\$ 578,399,500	89.66	\$ 589,784,150	90.88
Public utility personal	15,437,490	2.39	15,730,180	2.42
Tangible personal property	<u>51,255,951</u>	<u>7.95</u>	<u>43,468,462</u>	<u>6.70</u>
Total	<u>\$ 645,092,941</u>	<u>100.00</u>	<u>\$ 648,982,792</u>	<u>100.00</u>

Tax rate per \$1,000 of assessed valuaition for:

Operations	\$62.80	\$62.80
Debt Service	3.00	3.00

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), 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:

Governmental Activities

Taxes	\$ 20,363,669
Accounts	6,218
Intergovernmental	<u>355,009</u>
Total	<u>\$ 20,724,896</u>

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

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,785,562	\$ -	\$ -	\$ 1,785,562
Total capital assets, not being depreciated	<u>1,785,562</u>	<u>-</u>	<u>-</u>	<u>1,785,562</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,211,668	46,470	-	2,258,138
Buildings and improvements	34,153,361	586,894	-	34,740,255
Furniture and equipment	1,931,303	159,370	-	2,090,673
Vehicles	<u>2,781,806</u>	<u>124,422</u>	<u>(25,134)</u>	<u>2,881,094</u>
Total capital assets, being depreciated	<u>41,078,138</u>	<u>917,156</u>	<u>(25,134)</u>	<u>41,970,160</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,376,511)	(75,431)	-	(1,451,942)
Buildings and improvements	(14,557,871)	(676,283)	-	(15,234,154)
Furniture and equipment	(1,563,029)	(122,633)	-	(1,685,662)
Vehicles	<u>(1,961,211)</u>	<u>(197,007)</u>	<u>25,134</u>	<u>(2,133,084)</u>
Total accumulated depreciation	<u>(19,458,622)</u>	<u>(1,071,354)</u>	<u>25,134</u>	<u>(20,504,842)</u>
Governmental activities capital assets, net	<u>\$ 23,405,078</u>	<u>\$ (154,198)</u>	<u>\$ -</u>	<u>\$ 23,250,880</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>			
Regular		\$	763,335
Special			3,404
Vocational			5,392
<u>Support Services:</u>			
Pupil			5,092
Instructional staff			5,301
Board of education			28,772
Administration			29,439
Fiscal			3,474
Operations and maintenance			2,938
Pupil Transportation			206,656
Extracurricular activities			13,240
Food service operations			4,311
Total depreciation expense		\$	<u>1,071,354</u>

NOTE 9 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	<u>Issued</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Balance 06/30/04</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/05</u>	<u>Amount Due in One Year</u>
<u>G.O. Bonds Payable</u>								
High school improvements	1994	2019	4.25-5.00%	\$ 18,776,993	\$ 390,289	\$ (1,010,000)	\$ 18,157,282	\$ 1,090,000
Energy conservations	1994	2005	5.71%	260,000	-	(260,000)	-	-
Total G.O. bonds				<u>19,036,993</u>	<u>390,289</u>	<u>(1,270,000)</u>	<u>18,157,282</u>	<u>1,090,000</u>
<u>Other Long-Term Obligations</u>								
Compensated absences				1,783,930	635,049	(284,766)	2,134,213	286,613
Retirement incentive payable				180,000	100,000	(180,000)	100,000	-
Total other long-term obligations				<u>1,963,930</u>	<u>735,049</u>	<u>(464,766)</u>	<u>2,234,213</u>	<u>286,613</u>
Total governmental activities				<u>\$ 21,000,923</u>	<u>\$ 1,125,338</u>	<u>\$ (1,734,766)</u>	<u>\$ 20,391,495</u>	<u>\$ 1,376,613</u>

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

- A. On October 1, 1994, the District issued general obligation bonds in the principal amount of \$22,953,000 for the purpose of improving Hoover High School (North Campus) to provide a one-site high school for the District, as well as converting the existing Hoover High School (South Campus) to a middle school and improving the Clearmount, Greentown, Northwood, and Orchard Hill Elementary Schools. It also included the Portage Building and Mary L. Evans Kindergarten Center. The District levied a tax outside of the 10-mill limitation imposed by state statutes to pay the debt charges on the bonds and any anticipatory securities.

On March 1, 1998, the District issued general obligation bonds to refund a portion of the 1994 Series issue. This issue is comprised of both current interest bonds, par value \$15,960,000, and capital appreciation bonds, par value \$4,830,000. The interest rates on the current interest bonds range from 4.25% to 5.00%. The capital appreciation bonds mature on December 1, 2007 (effective interest 18.00%), December 1, 2008 (effective interest 18.00%) and December 1, 2009 (effective interest 18.00%) and December 1, 2010 (effective interest 18.05%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets was \$714,795. A total of \$1,762,487 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2005.

These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issues is December 1, 2019.

The following is a schedule of activity for the general obligation bonds:

	<u>Balance</u> <u>6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/05</u>
Current interest bonds -				
1994 Series	\$ 2,330,000	\$ -	\$ (715,000)	\$ 1,615,000
Current interest bonds -				
1998 Series	14,360,000	-	(295,000)	14,065,000
Capital appreciation bonds -				
1998 Series	<u>2,086,993</u>	<u>390,289</u>	<u>-</u>	<u>2,477,282</u>
Total	<u>\$ 18,776,993</u>	<u>\$ 390,289</u>	<u>\$ (1,010,000)</u>	<u>\$ 18,157,282</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 1,090,000	\$ 762,142	\$ 1,852,142	\$ -	\$ -	\$ -
2007	1,150,000	702,743	1,852,743	-	-	-
2008	-	672,000	672,000	1,210,000	-	1,210,000
2009	-	672,000	672,000	1,205,000	-	1,205,000
2010	-	672,000	672,000	1,205,000	-	1,205,000
2011 - 2015	5,190,000	2,920,750	8,110,750	1,210,000	-	1,210,000
2016 - 2020	8,250,000	1,856,250	10,106,250	-	-	-
Total	<u>\$ 15,680,000</u>	<u>\$ 8,257,885</u>	<u>\$ 23,937,885</u>	<u>\$ 4,830,000</u>	<u>\$ -</u>	<u>\$ 4,830,000</u>

B. On April 19, 1997, the District issued energy conservation bonds for the purpose of upgrading buildings owned by the District to reduce energy consumption. The bonds were issued at 5.71% for 7 years with semi-annual payments due in June and December. These bonds were retired during fiscal year 2005.

C. 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, 2005 are a voted debt margin of \$41,285,987 (including available funds of \$1,034,818) and an unvoted debt margin of \$648,983.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components is derived from negotiated agreements and state laws. Classified employees earn ten to thirty days of vacation per fiscal year, depending upon the length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 300 days for all personnel. Upon completion of ten or more years of service to the District, state, or other political subdivision, and retirement from the profession, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 60 days for certified employees and 62 days for classified employees. In addition, upon retirement, \$10 is paid for each day of sick leave accumulated above 200 days, up to a maximum of \$1,000.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 10 - OTHER EMPLOYEE BENEFITS - (Continued)

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance to most employees through National Term Life Insurance Company.

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. During fiscal year 2005, the District has contracted with private for various types of insurance as follows:

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Deductible</u>
Buildings and Contents		
Replacement Cost	\$78,601,730	\$5,000
Inland Marine Coverage	-	100
Automobile Liability	2,000,000	250
Uninsured Motorists	1,000,000	500
General Liability:		
Per occurrence	500,000	500
Aggregate	1,000,000	500

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

B. Group Health and Dental Insurance

The District participates in the Stark County School Council of Governments Health Benefit Plan, a shared risk pool (Note 2.A.) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District's Board of Education pays 95% of medical and 100% of dental monthly premiums.

Claims are paid for all participants regardless of claims flow. Upon termination, all district claims would be paid without regard to the District's account balance or the Directors have the right to hold monies for an exiting school district subsequent to the settlement of all expenses and claims.

C. Workers' Compensation

The District participates in the Stark county Schools Council of Governments Workers' Compensation Group Rating Plan, an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 11 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation - (Continued)

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances are compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "Equity Pooling Fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the GRP.

NOTE 12 - DEFINED BENEFIT PENSION PLAN

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. 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, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$687,766, \$655,842, and \$629,243, respectively; 42.68% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$394,212 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)

B. State Teachers Retirement System - (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$2,603,617, \$2,485,783, and \$2,380,506, respectively; 82.86% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$446,324 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$7,274 made by the District and \$48,796 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 13 - POSTEMPLOYMENT BENEFITS

C. Social Security System – (Continued)

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.

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% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$185,973 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$264,033 during the 2005 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to 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:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ (1,080,103)
Net adjustment for revenue accruals	58,049
Net adjustment for expenditure accruals	63,662
Net adjustment for other sources/uses	90,850
Adjustment for encumbrances	556,802
GAAP basis	\$ (310,740)

NOTE 15 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the 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 not a party to legal proceedings that would have a material effect 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)

NOTE 15 - CONTINGENCIES - (Continued)

C. State School Funding Decision - (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 16 - STATUTORY RESERVES

The Districts is required by state statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In addition, the District set-aside certain BWC refunds that are restricted in use by state statute for budget stabilization.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks/instructional materials, capital acquisition and budget stabilization. Disclosure of this information is required by state statute.

	Textbooks/ Instructional <u>Materials</u>	Capital <u>Acquisition</u>	Budget <u>Stabilization</u>
Set-aside cash balance as of June 30, 2004	\$ (231,896)	\$ -	\$ 141,997
Current year set-aside requirement	707,709	707,709	-
Qualifying disbursements	<u>(356,963)</u>	<u>(1,179,870)</u>	<u>(1,280)</u>
Total	<u>\$ 118,850</u>	<u>\$ (472,161)</u>	<u>\$ 140,717</u>
Balance carried forward to FY 2006	<u>\$ 118,850</u>	<u>\$ -</u>	<u>\$ 140,717</u>

The District had offsets and qualifying disbursements during the year that reduced the textbooks/instructional materials set-aside amount below zero; this extra amount is being carried forward to reduce the set-aside requirements of future years.

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of the restricted assets at June 30, 2005 follows:

Amount restricted for budget stabilization	\$ 140,717
Amount restricted for bus purchase allowance	27,679
Amount restricted for instructional materials	<u>118,850</u>
Total restricted assets	<u>\$ 287,246</u>

**NORTH CANTON CITY SCHOOL DISTRICT
STARK COUNTY
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$ 49,325		\$ 49,325
National School Lunch Program	N/A	10.555	\$ 190,141		\$ 190,141	
Total Nutrition Cluster / U.S. Department of Agriculture			190,141	49,325	190,141	49,325
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States	044503-6BSF-2005	84.027	729,819		768,168	
	044503-6BSF-2004		58,593		91,418	
Special Education Preschool Grants	044503-PGS1-2005	84.173	34,427		34,427	
	044503-PGS1-2004		727			
Total Special Education Cluster			823,566		894,013	
Title I, Grants to Local Educational Agencies	044503-C1S1-2005	84.010	191,066		181,690	
	044503-C1S1-2004		10,442		26,386	
Total Title I, Grants to Local Educational Agencies			201,508		208,076	
Title II-A, Improving Teacher Quality State Grants	044503-TRS1-2005	84.367	112,720		112,169	
	044503-TRS1-2004		7,351		12,192	
Total Title II-A, Improving Teacher Quality State Grants			120,071		124,361	
Title V, Innovative Educational Program Strategies	044503-C2S1-2005	84.298	22,821		20,197	
	044503-C2S1-2004		579		470	
Total Title V, Innovative Educational Program Strategies			23,400		20,667	
Title IV-A, Drug Free Schools Grant	044503-DRS1-2005	84.186	9,287		13,977	
	044503-DRS1-2004		883		2,464	
Total Title IV-A, Drug Free Schools Grant			10,170		16,441	
Title II-D, Education Technology State Grants	044503-TJS1-2005	84.318	1,503		966	
	044503-TJS1-2004		3,274		5,430	
Total Title II-D, Education Technology State Grants			4,777		6,396	
Career and Technical Education, Project Lead the Way	20A0-2005	84.048	2,000		20,000	
Advanced Placement Program	AVTF-2005	84.330	208		208	
<i>Passed Through Plain Local School District - Fiscal Agent of Compact:</i>						
Vocational Education Basic Grants to States	CP-111-502-093	84.048	36,318		37,073	
Total U.S. Department of Education			1,222,018		1,327,235	
Totals			\$ 1,412,159	\$ 49,325	\$ 1,517,376	\$ 49,325

The accompanying notes to this schedule are an integral part of this schedule.

**NORTH CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**Auditor of State
Betty Montgomery**

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

North Canton City School District
Stark County
525 Seventh Street NE
Uniontown, Ohio 44720

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Canton City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 23, 2005 wherein the District implemented Governmental Accounting Standards Board Technical Bulletin No. 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

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

However, in a separate letter to the District's management dated December 23, 2005, we reported other matters related to noncompliance we deemed immaterial.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

North Canton City School District
Stark County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Governmental Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for 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

December 23, 2005



Auditor of State Betty Montgomery

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

North Canton City School District
Stark County
525 Seventh Street NE
North Canton, Ohio 44720

To the Board of Education:

Compliance

We have audited the compliance of North 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 apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

North Canton City School District
Stark County
Independent Accountants' Report on Compliance with Requirements
Applicable to its Major Federal Program and 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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for 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

December 23, 2005

**NORTH CANTON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2005**

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)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(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):	Special Education Cluster, CFDA #84.027 and #84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

NORTH 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
JANUARY 12, 2006**