



**Auditor of State
Betty Montgomery**

**CITY OF MASSILLON
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.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance	
Governmental Funds.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance	
Budget (Non-GAAP Basis) an Actual	
General Fund	20
Statement of Fund Net Assets	
Proprietary Funds.....	21
Statement of Revenues, Expenses and Changes in Fund Net Assets	
Proprietary Funds.....	22
Statement of Cash Flows	
Proprietary Funds.....	23
Statement of Fiduciary Net Assets	
Fiduciary Funds.....	24
Statement of Changes in Fiduciary Net Assets	
Fiduciary Funds.....	25
Notes to the Basic Financial Statements.....	27
Federal Awards Receipts and Expenditures Schedule.....	55
Notes to the Federal Awards Receipts and Expenditures Schedule	56
Independent Accountants' Report on Internal Control Over	
Financial Reporting and on Compliance and Other Matters	
Required by <i>Government Auditing Standards</i>	57
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	59
Schedule of Findings.....	61
Schedule of Prior Audit Findings.....	64

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Massillon
Stark County
One James Duncan Plaza
Massillon, Ohio 44646

To the Honorable Mayor and City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Massillon, Stark County, Ohio, (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City'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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Massillon, Stark County, Ohio, as of December 31, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2006, on our consideration of the City'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.

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 City'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

September 15, 2006

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

The discussion and analysis of the City of Massillon's (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- The total net assets of the City increased \$3,500,052. Net assets of governmental activities increased \$1,690,780, which represents a 12.5% increase over fiscal year 2004. Net assets of business-type activities increased \$1,809,272 or 28.6% from fiscal year 2004.
- General revenues accounted for \$18,004,569, or 70.2% of total governmental activities revenue. Program specific revenues accounted for \$7,647,095 or 29.8% of total governmental activities revenue.
- Governmental activities net capital assets increased \$948,204, primarily due to construction in progress to the City's infrastructure.
- The City received additional loan proceeds from the Ohio Public Works Commission (OPWC) in the amount of \$465,449. These proceeds were used to construct infrastructure that is reported in governmental activities.
- The City received proceeds from the Ohio Water Development Authority (OWDA) in the amount of \$1,780,013 to provide resources necessary for the upgrade to the wastewater treatment plant.
- The general fund, the City's largest major fund, had revenues of \$15,304,631 in 2005, or 59.0% of total governmental funds. Expenditures of the general fund were \$14,714,467, or 50.5% of total governmental funds. The general fund balance decreased \$513,732 in 2005, or 25.6%, over 2004.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand the City 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 summary information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Major fund financial statements provide the next level of detail. For governmental funds, these statements show how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor governmental funds presented in total in one column. In the case of the City, there are two major governmental funds and three major business-type funds.

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

Reporting the City as a Whole

Statement of Net Assets and Statement of Activities

While this document contains a number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and helps to answer the question, "How did we do financially during 2005?" These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, whether the financial position of the City 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 City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions and other factors.

In the statement of net assets and the statement of activities, the City is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the City's programs and services are reported here including general government, security of persons and property, leisure time activities, and transportation. These services are funded primarily by taxes and intergovernmental revenues including federal and state grants and other shared revenues.
- **Business-Type Activities** – These services are provided on a fee-for-usage basis to recover all or a significant portion of the expenses of the goods or services provided. The City's business-type activities include wastewater treatment, solid waste disposal and golf course operations.

Reporting the City's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are divided into three categories: governmental, proprietary and fiduciary funds. Fund financial reports provide detailed information about the activities within the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the general fund and the Lincoln Center bond retirement debt service fund. An analysis of the City's major governmental funds begins on page 9.

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The City maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the major funds, which were identified earlier.

Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 16-20 of this report.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise wastewater, solid waste, and golf course funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Since they use the same basis of accounting as business-type activities, these fund statements will essentially match the information provided in statements for the City as a whole. Internal service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for a self-funded dental and vision benefits insurance program for employees of the City. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting method used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 24-25 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 27-53 of this report.

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

Government-Wide Financial Analysis

The statement of net assets provides the perspective of the City as a whole. Table 1 below provides a summary of the City's net assets for 2005 compared to 2004:

Table 1
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<u>Assets:</u>						
Current and other assets	\$ 17,641,866	\$ 15,979,676	\$ 5,281,951	\$ 5,911,682	\$ 22,923,817	\$ 21,891,358
Capital assets	<u>28,545,020</u>	<u>27,596,816</u>	<u>50,852,221</u>	<u>48,886,133</u>	<u>79,397,241</u>	<u>76,482,949</u>
Total assets	<u>46,186,886</u>	<u>43,576,492</u>	<u>56,134,172</u>	<u>54,797,815</u>	<u>102,321,058</u>	<u>98,374,307</u>
<u>Liabilities:</u>						
Other liabilities	3,986,327	3,024,625	440,840	369,351	4,427,167	3,393,976
Long-term liabilities outstanding	<u>27,036,887</u>	<u>27,078,975</u>	<u>47,562,103</u>	<u>48,106,507</u>	<u>74,598,990</u>	<u>75,185,482</u>
Total liabilities	<u>31,023,214</u>	<u>30,103,600</u>	<u>48,002,943</u>	<u>48,475,858</u>	<u>79,026,157</u>	<u>78,579,458</u>
<u>Net assets:</u>						
Invested in capital assets, net of related debt	7,180,287	4,572,825	9,754,282	7,057,935	16,934,569	11,630,760
Restricted for:						
Capital projects	2,277,926	1,168,893	-	-	2,277,926	1,168,893
Debt service	2,714,480	2,072,992	-	-	2,714,480	2,072,992
Other purpose	964,152	984,071	-	-	964,152	984,071
Transportation	566,436	439,675	-	-	566,436	439,675
Economic development	3,241,038	3,105,102	-	-	3,241,038	3,105,102
Parks and recreation	72,710	157,308	-	-	72,710	157,308
Unrestricted	<u>(1,853,357)</u>	<u>972,026</u>	<u>(1,436,345)</u>	<u>(735,978)</u>	<u>(3,289,702)</u>	<u>236,048</u>
Total net assets	<u>\$ 15,163,672</u>	<u>\$ 13,472,892</u>	<u>\$ 8,317,937</u>	<u>\$ 6,321,957</u>	<u>\$ 23,481,609</u>	<u>\$ 19,794,849</u>

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2005, the City's assets exceeded liabilities by \$23,481,609. This amounts to \$15,163,672 in governmental activities and \$8,317,937 in business-type activities. Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 77.6% of total governmental and business-type assets. Capital assets include land, land improvements, buildings, vehicles, machinery and equipment, construction in progress and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2005, were \$16,934,569. These capital assets are used to provide services to citizens and are not available for future spending. Although the City'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 City's net assets, \$9,836,742 or 41.9%, represent resources that are subject to external restrictions on how they may be used. The largest portion of the total restricted net assets consists of \$2,277,926, \$2,714,480 and \$3,241,038 which are restricted for capital projects, debt service and economic development, respectively.

Table 2 below shows the changes in net assets for fiscal year 2005 compared to 2004.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 3,461,550	\$ 3,208,239	\$ 9,395,081	\$ 8,226,998	\$ 12,856,631	\$ 11,435,237
Operating grants, contributions, and interest	2,779,300	2,941,960	600	5,915	2,779,900	2,947,875
Capital grants and contributions	1,406,245	1,132,956	-	-	1,406,245	1,132,956
General revenues:						
Property and other taxes	2,056,514	1,847,965	-	-	2,056,514	1,847,965
Municipal income taxes	12,533,910	12,505,438	-	-	12,533,910	12,505,438
Grants and entitlements	1,665,538	1,719,731	-	-	1,665,538	1,719,731
Investment earnings	461,353	479,176	-	-	461,353	479,176
Miscellaneous	1,287,254	684,303	170,060	258,485	1,457,314	942,788
Total revenues	<u>25,651,664</u>	<u>24,519,768</u>	<u>9,565,741</u>	<u>8,491,398</u>	<u>35,217,405</u>	<u>33,011,166</u>

(Continued)

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

Table 2
Changes in Net Assets (Continued)

	Governmental Activities		Business-Type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Program Expenses						
Governmental Activities:						
General government	6,358,616	5,503,853	-	-	6,358,616	5,503,853
Security of persons and property	8,943,901	9,195,213	-	-	8,943,901	9,195,213
Public health and welfare	709,680	675,333	-	-	709,680	675,333
Basic utility services	21,819	25,383	-	-	21,819	25,383
Leisure time activities	2,920,210	2,608,099	-	-	2,920,210	2,608,099
Economic development and assistance	1,121,924	918,833	-	-	1,121,924	918,833
Transportation	2,257,301	2,096,646	-	-	2,257,301	2,096,646
Urban redevelopment and housing	123,874	173,258	-	-	123,874	173,258
Other	389,543	540,653	-	-	389,543	540,653
Interest and fiscal charges	1,114,016	1,000,116	-	-	1,114,016	1,000,116
Business-type Activities:						
Wastewater	-	-	5,581,199	5,266,862	5,581,199	5,266,862
Solid waste	-	-	900,827	964,010	900,827	964,010
Golf course	-	-	1,274,443	1,263,208	1,274,443	1,263,208
Total program expenses	<u>23,960,884</u>	<u>22,737,387</u>	<u>7,756,469</u>	<u>7,494,080</u>	<u>31,717,353</u>	<u>30,231,467</u>
Change in net assets	<u>\$ 1,690,780</u>	<u>\$ 1,782,381</u>	<u>\$ 1,809,272</u>	<u>\$ 997,318</u>	<u>\$ 3,500,052</u>	<u>\$ 2,779,699</u>

Governmental Activities

Governmental activities net assets increased \$1,690,780 in 2005. The funding for governmental activities comes from several different sources, with municipal income tax being the largest contributor. Income tax revenues increased by \$28,472 or .22% which is reflective of the local economy. The City's governmental expenses increased \$1,223,497 or 5.4%.

Security of persons and property, which primarily supports the operations of the City's police, fire and emergency medical services, accounted for \$8,943,901 of expenses, or 37.3% of total governmental expenses of the City. These expenses were funded by \$1,558,238 in charges to users of services and operating and capital grants. General government expenses, which primarily include legislative, executive and financial management, totaled \$6,358,616 or 26.5% of total governmental expenses. General government expenses were covered by \$1,178,328 of direct charges to users, grants and entitlements, contributions and interest.

Overall, the State and Federal government contributed to the City's governmental revenues with \$6,282,917 in grants, entitlements and contributions, including interest earned on these resources. Of these revenues \$4,617,379, or 73.5%, are restricted to a particular program or purpose.

General revenues totaled \$18,004,569, and amounted to 70.2% of total revenues. These revenues primarily consist of property and income tax revenue of \$14,590,424, or 81.0% of total general revenues. The other primary source of general revenues is grants and entitlements not

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

restricted to specific programs, with local government, local government revenue assistance and estate taxes making up a majority of the \$1,665,538 or 9.3%, of the total general revenues.

Business-Type Activities

The wastewater, solid waste, and golf course funds are the City's enterprise funds. These programs had program revenues of \$9,395,681 and expenses of \$7,756,469 for fiscal year 2005. Business-type activities reported a change in net assets of \$1,809,272 which was an increase of 28.6% from 2004. This increase was possible with an increase in certain user fees.

Expenses in the golf course and wastewater funds increased by \$11,235 and \$314,337, respectively over 2004. These increases were not significant and mainly attributed to increased costs related to various contractual services used by the City.

Program Expenses

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 below shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by general revenues.

The negative amounts shown in Table 3 are indicative of whether a particular function of government relies on general revenues for financing or is a net contributor of resources to the general government. The positive amount shown for the transportation program are due to the accumulation of gas and excise taxes received from the State for future street repair projects.

Table 3
Program Expenses

	<u>2005</u>		<u>2004</u>		<u>Net Change</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Governmental Activities:						
General government	\$ 6,358,616	\$ (5,180,288)	\$ 5,503,853	\$ (5,124,083)	\$ 854,763	\$ (56,205)
Security of persons and property	8,943,901	(7,385,663)	9,195,213	(7,342,270)	(251,312)	(43,393)
Public health and welfare	709,680	(438,211)	675,333	(437,614)	34,347	(597)
Basic utility services	21,819	11,928	25,383	(383)	(3,564)	12,311
Leisure time activities	2,920,210	(1,867,262)	2,608,099	(1,654,268)	312,111	(212,994)
Economic development and assistance	1,121,924	(564,605)	918,833	(6,808)	203,091	(557,797)
Transportation	2,257,301	582,558	2,096,646	553,177	160,655	29,381
Urban redevelopment and housing	123,874	27,704	173,258	33,488	(49,384)	(5,784)
Other	389,543	(385,934)	540,653	(475,355)	(151,110)	89,421
Interest and fiscal charges	1,114,016	(1,114,016)	1,000,116	(1,000,116)	113,900	(113,900)
Business-type Activities:						
Wastewater treatment	5,581,199	1,911,385	5,266,862	960,573	314,337	950,812
Solid waste	900,827	52,086	964,010	25,445	(63,183)	26,641
Golf course	1,274,443	(324,259)	1,263,208	(247,185)	11,235	(77,074)
Total expenses	\$ 31,717,353	\$ (14,674,577)	\$ 30,231,467	\$ (14,715,399)	\$ 1,485,886	\$ 40,822

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

The dependence upon general revenues for governmental activities is apparent, with 68.1% of expenses supported through taxes and other general revenues.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The general fund is the operating fund of the City. At the end of the fiscal year, the fund balance of the general fund was \$1,489,412, a 25.6% decrease from prior year. The primary reason for the decrease of the general fund balance in 2005 was attributed to an increase in transfers to other funds and an increase in expenditures within various functions and not attributed to any single transaction. The fund balance of the Lincoln Center bond retirement debt service fund reported an increase of \$541,479 in 2005. This increase was caused primarily from the sale of assets of which the proceeds were placed in this debt service fund.

Budgeting Highlights - General Fund

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially, the budget is the City's appropriations that are restricted by the amounts of anticipated revenues certified by the County Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity, then the appropriations can be adjusted accordingly.

The most significant budgeted governmental fund is the general fund. The most significant variance between revenue and final budgeted revenue amounts was to property and other tax revenue. Actual amounts fell short of the final budgeted amount by \$168,098. Overall, total revenues fell short of the final estimated revenue. During the year, these estimates were changed as new information was made available. The final actual revenue exceeded the original estimated revenue by \$663,748.

Final budgeted expenditures increased \$802,695 or 5.8% over the original budgeted amounts. This increase was adjusted along with the estimated resources that are anticipated to be available. Budgeted expenditures are not allowed to exceed estimated resources that are certified by the County Auditor. As additional resources are identified the certification is amended and budgeted expenditures can be adjusted accordingly. Actual expenditures and encumbrances were under the final budget by \$259,390 or 1.8%.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the City had \$79,397,241 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings, vehicles, machinery and equipment, and infrastructure. Of this total, \$28,545,020 was reported in governmental activities and \$50,852,221 was reported in business-type activities. Table 4 below reports fiscal year 2005 balances compared to 2004:

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

Table 4
Capital Assets, at Fiscal Year End
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 7,972,815	\$ 8,062,633	\$ 3,052,637	\$ 3,052,637	\$ 11,025,452	\$ 11,115,270
Construction in progress	1,443,408	2,635,191	37,981,726	35,677,263	39,425,134	38,312,454
Land improvements	2,710,842	2,663,399	944,339	1,051,407	3,655,181	3,714,806
Buildings	9,915,017	10,281,120	3,063,065	3,260,726	12,978,082	13,541,846
Vehicles	1,024,865	956,239	531,335	312,833	1,556,200	1,269,072
Machinery and equipment	1,307,722	1,307,361	713,370	733,204	2,021,092	2,040,565
Infrastructure	<u>4,170,351</u>	<u>1,690,873</u>	<u>4,565,749</u>	<u>4,798,063</u>	<u>8,736,100</u>	<u>6,488,936</u>
Total	<u>\$ 28,545,020</u>	<u>\$ 27,596,816</u>	<u>\$ 50,852,221</u>	<u>\$ 48,886,133</u>	<u>\$ 79,397,241</u>	<u>\$ 76,482,949</u>

The most significant change in fiscal year 2005 to the total amount of capital assets was to infrastructure for governmental activities and to construction in progress for business-type activities. For governmental activities, the increase was primarily due to the City electing to "phase in" the retroactive reporting of infrastructure assets. For business-type activities, the most significant increase was due from the continued upgrades to the City's wastewater treatment service. See Note 8 to the basic financial statements for detail on governmental and business-type activities capital assets.

Debt Administration

At December 31, 2005 the City had total long-term obligations outstanding of \$74,598,990. Of this total, \$4,487,125 is due within one year and \$70,111,865 is due in more than one year. Table 5 below summarizes the bonds and loans outstanding:

Table 5
Outstanding Debt, at Fiscal Year End

	Governmental Activities		Business-Type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General obligation bonds	\$ 17,323,616	\$ 17,722,700	\$ 7,614,615	\$ 7,800,591	\$ 24,938,231	\$ 25,523,291
Unamortized items	-	-	(225,871)	(260,835)	(225,871)	(260,835)
Bond anticipation notes	2,993,000	2,993,000	-	-	2,993,000	2,993,000
Special obligation debt	279,000	-	14,069	14,069	293,069	14,069
Loans payable	2,495,449	2,080,000	39,220,139	39,648,362	41,715,588	41,728,362
Special assessment bonds	-	39,000	-	-	-	39,000
Other obligations	<u>3,945,822</u>	<u>-</u>	<u>939,151</u>	<u>-</u>	<u>4,884,973</u>	<u>-</u>
Total	<u>\$ 27,036,887</u>	<u>\$ 22,834,700</u>	<u>\$ 47,562,103</u>	<u>\$ 47,202,187</u>	<u>\$ 74,598,990</u>	<u>\$ 70,036,887</u>

All governmental long-term debt will be repaid by the Debt Retirement debt service fund and all business-type long-term debt will be repaid by the wastewater and golf course enterprise funds.

At December 31, 2005 the City's overall legal debt margin was \$36,118,696 with an unvoted debt margin of \$10,017,888. The City's credit rating remained unchanged in 2005 as compared to 2004. See Note 13 to the basic financial statements for details on the City's long-term obligations.

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2005
Unaudited

Current Issues Affecting Financial Condition

The City of Massillon is financially strong. Although the economic downturn has impacted the fund balances, the services that the City provides our citizens remained constant and efficient.

In fiscal year 2006, the City will continue to upgrade the wastewater treatment plant operations and various infrastructure improvements. Current outstanding contracts for these projects total \$4,540,482. See Note 11 of the basic financial statements for details on the City's major contractual commitments.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Bill Hamit, City of Massillon Auditor, One James Duncan Plaza, Massillon, Ohio 44646, (330) 830-1708, or visit our web site at www.massillonohio.com.

City of Massillon, Ohio
Statement of Net Assets
December 31, 2005

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 5,774,228	\$ 3,333,456	\$ 9,107,684
Cash and cash equivalents:			
In segregated accounts	46,120	-	46,120
Receivables:			
Property and other taxes	2,113,447	-	2,113,447
Income tax	2,727,315	-	2,727,315
Accounts	760,514	1,913,389	2,673,903
Due from other governments	1,836,761	-	1,836,761
Special assessments	101,535	-	101,535
Accrued interest	663,328	-	663,328
Internal balances	90,000	(90,000)	-
Prepaid items	5,105	-	5,105
Materials and supplies inventory	98,129	4,719	102,848
Loans receivable	20,978	-	20,978
Notes receivable	3,404,406	-	3,404,406
Deferred charges	-	120,387	120,387
Nondepreciable capital assets	9,416,223	41,333,292	50,749,515
Depreciable capital assets, net	19,128,797	9,817,858	28,946,655
Total assets	46,186,886	56,433,101	102,619,987
Liabilities:			
Contracts payable	208,904	25,821	234,725
Accounts payable	595,708	218,812	814,520
Accrued wages and benefits	211,741	43,230	254,971
Income tax refunds payable	172,625	-	172,625
Due to other governments	985,341	127,165	1,112,506
Deferred revenue	1,658,787	-	1,658,787
Accrued interest payable	152,547	25,812	178,359
Claims payable	674	-	674
Long-term liabilities:			
Due within one year	3,896,443	616,986	4,513,429
Due in more than one year	23,140,444	47,057,338	70,197,782
Total liabilities	31,023,214	48,115,164	79,138,378
Net assets:			
Invested in capital assets, net of related debt	7,180,287	9,754,282	16,934,569
Restricted for:			
Capital projects	2,277,926	-	2,277,926
Debt service	2,714,480	-	2,714,480
Other purposes	964,152	-	964,152
Transportation	566,436	-	566,436
Economic development	3,241,038	-	3,241,038
Parks and recreation	72,710	-	72,710
Unrestricted	(1,853,357)	(1,436,345)	(3,289,702)
Total net assets	\$ 15,163,672	\$ 8,317,937	\$ 23,481,609

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Activities
For the Year Ended December 31, 2005

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and sales</u>	<u>Operating Grants, Contributions and Interest</u>	<u>Capital Grants and Contributions</u>
<u>Governmental Activities:</u>				
General government	\$ 6,358,616	\$ 1,137,385	\$ 40,943	\$ -
Security of persons and property	8,943,901	1,330,747	227,491	-
Public health and welfare	709,680	160,951	110,518	-
Basic utility services	21,819	-	33,747	-
Leisure time activities	2,920,210	762,352	290,596	-
Economic development and assistance	1,121,924	-	557,319	-
Transportation	2,257,301	66,506	1,367,108	1,406,245
Urban redevelopment and housing	123,874	-	151,578	-
Other	389,543	3,609	-	-
Interest and fiscal charges	1,114,016	-	-	-
Total governmental activities	<u>23,960,884</u>	<u>3,461,550</u>	<u>2,779,300</u>	<u>1,406,245</u>
<u>Business-Type Activities:</u>				
Wastewater treatment	5,282,270	7,492,584	-	-
Solid waste	900,827	952,313	600	-
Golf course	1,386,664	950,184	-	-
Total business-type activities	<u>7,569,761</u>	<u>9,395,081</u>	<u>600</u>	<u>-</u>
Total primary government	<u>\$ 31,530,645</u>	<u>\$ 12,856,631</u>	<u>\$ 2,779,900</u>	<u>\$ 1,406,245</u>

General revenues:
Property taxes levied for:
 General purposes
 Capital improvements
 Police and fire pension
 Debt retirement
Municipal income tax levied for:
 General purposes
 Capital improvements
 Leisure time activities
Grants and entitlements not restricted
to specific programs
Investment earnings
Miscellaneous
Total general revenues

Change in net assets
Net assets at beginning of year
Net assets at end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (5,180,288)	\$ -	\$ (5,180,288)
(7,385,663)	-	(7,385,663)
(438,211)	-	(438,211)
11,928	-	11,928
(1,867,262)	-	(1,867,262)
(564,605)	-	(564,605)
582,558	-	582,558
27,704	-	27,704
(385,934)	-	(385,934)
<u>(1,114,016)</u>	<u>-</u>	<u>(1,114,016)</u>
<u>(16,313,789)</u>	<u>-</u>	<u>(16,313,789)</u>
-	2,210,314	2,210,314
-	52,086	52,086
-	<u>(436,480)</u>	<u>(436,480)</u>
-	<u>1,825,920</u>	<u>1,825,920</u>
<u>\$ (16,313,789)</u>	<u>\$ 1,825,920</u>	<u>\$ (14,487,869)</u>
1,316,220	-	1,316,220
324,608	-	324,608
281,867	-	281,867
133,819	-	133,819
9,297,418	-	9,297,418
1,303,967	-	1,303,967
1,932,525	-	1,932,525
1,665,538	-	1,665,538
461,353	-	461,353
<u>1,287,254</u>	<u>170,060</u>	<u>1,457,314</u>
<u>18,004,569</u>	<u>170,060</u>	<u>18,174,629</u>
1,690,780	1,995,980	3,686,760
<u>13,472,892</u>	<u>6,321,957</u>	<u>19,794,849</u>
<u>\$ 15,163,672</u>	<u>\$ 8,317,937</u>	<u>\$ 23,481,609</u>

City of Massillon, Ohio
Balance Sheet
Governmental Funds
December 31, 2005

	General	Lincoln Center Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 356,066	\$ 541,577	\$ 4,645,962	\$ 5,543,605
Cash and cash equivalents:				
In segregated accounts	-	-	46,120	46,120
Receivables:				
Property and other taxes	1,456,897	-	656,550	2,113,447
Income taxes	1,977,304	-	750,011	2,727,315
Accounts	191,454	-	563,797	755,251
Due from other governments	866,170	-	970,591	1,836,761
Special assessments	8,568	-	92,967	101,535
Accrued interest	79,827	-	583,501	663,328
Interfund	70,000	-	20,000	90,000
Prepaid items	5,105	-	-	5,105
Materials and supplies inventory	94,428	-	3,701	98,129
Loans receivable	-	-	20,978	20,978
Notes receivable	-	-	3,404,406	3,404,406
Total assets	\$ 5,105,819	\$ 541,577	\$ 11,758,584	\$ 17,405,980
Liabilities:				
Accounts payable	\$ 122,844	\$ -	\$ 294,943	\$ 417,787
Contracts payable	-	-	208,904	208,904
Accrued wages and benefits	173,495	-	38,246	211,741
Income tax refunds payable	172,625	-	-	172,625
Due to other governments	531,155	-	454,186	985,341
Deferred revenue	2,616,288	-	2,431,007	5,047,295
Total liabilities	3,616,407	-	3,427,286	7,043,693
Fund Balances:				
Reserved for encumbrances	92,701	-	3,733,254	3,825,955
Reserved for loans receivable	-	-	20,978	20,978
Reserved for notes receivable	-	-	3,404,406	3,404,406
Unreserved:				
Undesignated, reported in:				
General fund	1,396,711	-	-	1,396,711
Special revenue funds	-	-	1,420,427	1,420,427
Debt service fund	-	541,577	859,998	1,401,575
Capital projects funds	-	-	(1,107,765)	(1,107,765)
Total fund balances	1,489,412	541,577	8,331,298	10,362,287
Total liabilities and fund balances	\$ 5,105,819	\$ 541,577	\$ 11,758,584	\$ 17,405,980

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2005

Total governmental fund balances \$ 10,362,287

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 28,545,020

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Property and other taxes	\$	272,785	
Municipal income taxes		957,256	
Investment income		583,501	
Intergovernmental		913,929	
Special assessments		101,535	
Charges for services and other		559,502	
Total			3,388,508

Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds (152,547)

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 57,291

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds	\$	(17,304,999)	
Accretion on capital appreciation bonds		(18,617)	
Bond anticipation notes		(2,993,000)	
Loans payable		(2,495,449)	
Police and fire past service cost		(1,554,056)	
Special obligation debt		(279,000)	
Capital leases payable		(303,668)	
Compensated absences		(2,088,098)	
Total			(27,036,887)

Net assets of governmental activities \$ 15,163,672

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Lincoln Center Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property other taxes	\$ 1,335,984	\$ -	\$ 697,248	\$ 2,033,232
Municipal income taxes	9,603,111	-	3,236,325	12,839,436
Charges for services	389,965	-	817,729	1,207,694
Licenses and permits	331,228	-	113,162	444,390
Fines and forfeitures	1,203,867	-	605,248	1,809,115
Intergovernmental	1,831,781	-	4,449,182	6,280,963
Special assessments	-	-	17,171	17,171
Investment income	346,059	-	84,977	431,036
Contributions and donations	-	-	112,433	112,433
Other	262,636	-	488,993	751,629
Total revenues	15,304,631	-	10,622,468	25,927,099
Expenditures:				
Current:				
General government	5,894,975	-	292,340	6,187,315
Security of persons and property	7,303,061	-	1,612,545	8,915,606
Public health and welfare	425,745	-	240,838	666,583
Basic utility services	-	-	21,819	21,819
Leisure time activities	-	-	2,486,703	2,486,703
Economic development and assistance	-	-	1,118,020	1,118,020
Transportation	682,559	-	1,364,636	2,047,195
Urban redevelopment and housing	-	-	123,874	123,874
Other	369,202	28,906	5,318	403,426
Capital outlay	10,991	-	2,134,364	2,145,355
Debt service:				
Principal retirement	23,397	3,223,000	666,931	3,913,328
Interest and fiscal charges	4,537	164,556	939,439	1,108,532
Total expenditures	14,714,467	3,416,462	11,006,827	29,137,756
Excess of revenues over (under) expenditures	590,164	(3,416,462)	(384,359)	(3,210,657)
Other financing sources (uses):				
Proceeds from sale of capital assets	-	638,476	12,542	651,018
Inception of capital lease	-	-	235,705	235,705
Notes issued	-	2,993,000	-	2,993,000
OPWC loan	-	-	465,449	465,449
Accrued interest on notes sold	-	11,822	-	11,822
Transfers in	-	314,643	1,089,253	1,403,896
Transfers out	(1,103,896)	-	(300,000)	(1,403,896)
Total other financing sources (uses)	(1,103,896)	3,957,941	1,502,949	4,356,994
Net change in fund balances	(513,732)	541,479	1,118,590	1,146,337
Fund balances at beginning of year	2,003,144	98	7,212,708	9,215,950
Fund balances at end of year	\$ 1,489,412	\$ 541,577	\$ 8,331,298	\$ 10,362,287

See accompanying notes to the basic financial statements.

City of Massillon, Ohio

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2005

Net change in fund balances - Total governmental funds \$ 1,146,337

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 capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Net capital asset additions	\$	2,724,356	
Depreciation expense		<u>(1,073,459)</u>	
Excess of net capital asset additions over depreciation expense			1,650,897

The proceeds from the sale of capital assets are reported as a source of financing in the governmental funds. However, the cost of the capital assets sold is removed from the capital assets account in the statement of net assets and offset against the sales proceeds resulting in a gain or loss on the disposal of capital assets in the statement of activities. Thus, more revenue is reported in the governmental funds than in the statement of activities. (702,693)

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

Property and other taxes	\$	23,279	
Municipal income taxes		(305,526)	
Investment income		30,317	
Intergovernmental revenue		1,955	
Special assessments		(34,042)	
Miscellaneous		<u>8,582</u>	
Net change in deferred revenues during the year			(275,435)

Repayment of principal of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 3,939,438

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

Decrease in compensated absences	\$	386,720	
Interest accreted on capital appreciation debt		(10,916)	
Increase in accrued interest		<u>(6,390)</u>	
Total additional expenditures			369,414

The internal service fund used by management to charge the costs of dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. (164,024)

Proceeds of notes and loans are reported as financing sources in governmental funds and thus contributed to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities.

Notes issued	\$	(2,993,000)	
Special obligation		(579,000)	
OPWC loan		<u>(465,449)</u>	
			(4,037,449)

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. (235,705)

Change in net assets of governmental activities \$ 1,690,780

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property and other taxes	\$ 1,300,000	\$ 1,560,192	\$ 1,392,094	\$ (168,098)
Municipal income taxes	9,450,000	9,700,000	9,579,659	(120,341)
Charges for services	380,000	456,000	391,780	(64,220)
Licenses and permits	309,000	346,000	320,913	(25,087)
Fines and forfeitures	1,150,200	1,150,200	1,180,362	30,162
Intergovernmental	1,600,600	1,856,800	1,830,443	(26,357)
Investment income	175,000	175,000	279,604	104,604
Other	204,700	205,000	258,393	53,393
Total revenues	<u>14,569,500</u>	<u>15,449,192</u>	<u>15,233,248</u>	<u>(215,944)</u>
<u>Expenditures:</u>				
Current:				
General government	5,514,639	5,887,284	5,732,024	155,260
Security of persons and property	6,878,119	7,284,752	7,250,940	33,812
Public health and welfare	403,680	411,480	393,218	18,262
Transportation	517,964	728,245	707,640	20,605
Other	395,469	393,703	362,301	31,402
Capital outlay	28,887	95,379	95,330	49
Total expenditures	<u>13,738,758</u>	<u>14,800,843</u>	<u>14,541,453</u>	<u>259,390</u>
Excess of revenues over expenditures	<u>830,742</u>	<u>648,349</u>	<u>691,795</u>	<u>43,446</u>
<u>Other financing sources (uses):</u>				
Advances in	-	20,000	-	(20,000)
Transfers in	-	14,000	-	(14,000)
Transfers out	(1,256,000)	(1,104,200)	(1,103,896)	304
Total other financing sources (uses)	<u>(1,256,000)</u>	<u>(1,070,200)</u>	<u>(1,103,896)</u>	<u>(33,696)</u>
Net change in fund balances	(425,258)	(421,851)	(412,101)	9,750
Fund balances at beginning of year	282,973	282,973	282,973	-
Prior year encumbrances appropriated	184,651	184,651	184,651	-
Fund balances at end of year	<u>\$ 42,366</u>	<u>\$ 45,773</u>	<u>\$ 55,523</u>	<u>\$ 9,750</u>

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2005

	Business-Type Activities			Total	Governmental Activities - Internal Service Fund
	Wastewater	Golf Course	Solid Waste		
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 2,865,253	\$ 18,856	\$ 449,347	\$ 3,333,456	\$ 230,623
Receivables:					
Accounts	1,787,788	92,634	32,967	1,913,389	5,263
Materials and supplies inventory	4,719	-	-	4,719	-
Deferred charges	-	120,387	-	120,387	-
Total current assets	4,657,760	231,877	482,314	5,371,951	235,886
Non-current assets:					
Capital assets:					
Land	59,400	2,993,237	-	3,052,637	-
Construction in progress	38,280,655	-	-	38,280,655	-
Depreciable capital assets, net	7,571,540	2,074,825	171,493	9,817,858	-
Total non-current assets	45,911,595	5,068,062	171,493	51,151,150	-
Total assets	50,569,355	5,299,939	653,807	56,523,101	235,886
Liabilities:					
Current liabilities:					
Accounts payable	179,204	27,728	11,880	218,812	177,921
Contracts payable	-	25,821	-	25,821	-
Accrued wages and benefits	30,639	3,291	9,300	43,230	-
Compensated absences payable	26,403	32,742	-	59,145	-
Due to other governments	83,902	16,314	26,949	127,165	-
Interfund payable	-	90,000	-	90,000	-
Accrued interest payable	1,077	24,735	-	25,812	-
Claims payable	-	-	-	-	674
Capital leases payable	152,382	26,304	-	178,686	-
General obligation bonds payable	155,000	165,000	-	320,000	-
OWDA loans payable	59,155	-	-	59,155	-
Total current liabilities	687,762	411,935	48,129	1,147,826	178,595
Long-term liabilities:					
Compensated absences payable	294,630	21,245	110,983	426,858	-
Unamortized discount on bonds	-	(57,895)	-	(57,895)	-
Unamortized cost of refunding	-	(167,976)	-	(167,976)	-
Special obligation payable	-	14,069	-	14,069	-
Capital leases payable, net of current portion	300,766	85,917	-	386,683	-
OWDA loans payable, net of current portion	39,160,984	-	-	39,160,984	-
General obligation bonds payable, net of current portion	320,000	6,974,615	-	7,294,615	-
Total long-term liabilities	40,076,380	6,869,975	110,983	47,057,338	-
Total liabilities	40,764,142	7,281,910	159,112	48,205,164	178,595
Net assets:					
Invested in capital assets, net of related debt	11,434,374	(1,851,585)	171,493	9,754,282	-
Unrestricted	(1,629,161)	(130,386)	323,202	(1,436,345)	57,291
Total net assets	\$ 9,805,213	\$ (1,981,971)	\$ 494,695	\$ 8,317,937	\$ 57,291

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005

	Business-Type Activities			Total	Governmental Activities - Internal Service Fund
	Wastewater	Golf Course	Solid Waste		
<u>Operating revenues:</u>					
Charges for services	\$ 7,492,584	\$ 950,184	\$ 952,313	\$ 9,395,081	\$ 38,618
Other	38,179	123,981	7,900	170,060	455
Total operating revenue	<u>7,530,763</u>	<u>1,074,165</u>	<u>960,213</u>	<u>9,565,141</u>	<u>39,073</u>
<u>Operating expenses:</u>					
Personal services	1,553,147	307,456	476,561	2,337,164	-
Fringe benefits	591,188	83,254	178,761	853,203	-
Contractual services	1,507,990	241,338	203,365	1,952,693	181,970
Supplies and materials	505,756	193,895	9,366	709,017	-
Claims	-	-	-	-	21,127
Other operating costs	167	-	550	717	-
Depreciation	541,471	195,791	32,224	769,486	-
Total operating expenses	<u>4,699,719</u>	<u>1,021,734</u>	<u>900,827</u>	<u>6,622,280</u>	<u>203,097</u>
Operating income (loss)	<u>2,831,044</u>	<u>52,431</u>	<u>59,386</u>	<u>2,942,861</u>	<u>(164,024)</u>
<u>Non-operating revenues (expenses):</u>					
Intergovernmental	-	-	600	600	-
Interest and fiscal charges	(582,551)	(364,930)	-	(947,481)	-
Total non-operating revenues (expenses):	<u>(582,551)</u>	<u>(364,930)</u>	<u>600</u>	<u>(946,881)</u>	<u>-</u>
Change in net assets	2,248,493	(312,499)	59,986	1,995,980	(164,024)
Net assets at beginning of year	<u>7,556,720</u>	<u>(1,669,472)</u>	<u>434,709</u>	<u>6,321,957</u>	<u>221,315</u>
Net assets at end of year	<u>\$ 9,805,213</u>	<u>\$ (1,981,971)</u>	<u>\$ 494,695</u>	<u>\$ 8,317,937</u>	<u>\$ 57,291</u>

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Business-Type Activities				Governmental
	Wastewater	Golf Course	Solid Waste	Total	Activities - Internal Service Fund
Cash flows from operating activities:					
Cash received from customers	\$ 7,405,449	\$ 950,184	\$ 941,901	\$ 9,297,534	\$ 38,618
Cash received from other operating sources	38,379	33,310	7,900	79,589	455
Cash payments for employee services and benefits	(2,150,923)	(398,947)	(682,017)	(3,231,887)	-
Cash payments to suppliers for goods and services	(1,961,452)	(322,051)	(257,420)	(2,540,923)	(27,371)
Net cash provided by (used for) operating activities	<u>3,331,453</u>	<u>262,496</u>	<u>10,364</u>	<u>3,604,313</u>	<u>11,702</u>
Cash flows from noncapital financing activities:					
Operating grants	-	-	600	600	-
Net cash provided by (used for) noncapital financing activities	<u>-</u>	<u>-</u>	<u>600</u>	<u>600</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Proceeds of loans	1,780,013	-	-	1,780,013	-
Principal payments on notes and bonds	(150,000)	(65,000)	-	(215,000)	-
Interest payments on notes and bonds	(15,682)	(292,540)	-	(308,222)	-
Principal payments on capital leases	(157,958)	(31,003)	-	(188,961)	-
Principal payment on loans	(2,208,236)	-	-	(2,208,236)	-
Interest payments on loans	(567,124)	-	-	(567,124)	-
Acquisition of capital assets	(2,636,024)	(16,815)	(8,552)	(2,661,391)	-
Net cash provided by (used for) capital and related financing activities	<u>(3,955,011)</u>	<u>(405,358)</u>	<u>(8,552)</u>	<u>(4,368,921)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(623,558)	(142,862)	2,412	(764,008)	11,702
Cash and cash equivalents at beginning of year	<u>3,488,811</u>	<u>161,718</u>	<u>446,935</u>	<u>4,097,464</u>	<u>218,921</u>
Cash and cash equivalents at end of year	<u>\$ 2,865,253</u>	<u>\$ 18,856</u>	<u>\$ 449,347</u>	<u>\$ 3,333,456</u>	<u>\$ 230,623</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:					
Operating income	\$ 2,831,044	\$ 52,431	\$ 59,386	\$ 2,942,861	\$ (164,024)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	541,471	195,791	32,224	769,486	-
Change in assets and liabilities:					
(Increase) decrease in assets:					
Accounts receivable	(86,935)	(90,671)	(10,412)	(188,018)	-
Due from other governments	-	-	-	-	-
Materials and supplies inventory	732	44,496	-	45,228	-
Increase (decrease) in liabilities:					
Accounts payable	52,687	42,079	(42,135)	52,631	177,921
Contracts payable	-	25,821	-	25,821	-
Accrued wages	30	349	199	578	-
Compensated absences	(26,607)	(12,274)	(35,290)	(74,171)	-
Due to other governments	19,031	4,474	6,392	29,897	-
Claims payable	-	-	-	-	(2,195)
Net cash provided by (used for) operating activities	<u>\$ 3,331,453</u>	<u>\$ 262,496</u>	<u>\$ 10,364</u>	<u>\$ 3,604,313</u>	<u>\$ 11,702</u>
Non-cash capital and related financing activities:					
Capital assets acquired by lease agreement	<u>\$ 268,888</u>	<u>\$ 141,296</u>	<u>\$ -</u>	<u>\$ 410,184</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2005

	<u>Private Purpose Trust</u>	<u>Agency</u>
<u>Assets:</u>		
Assets:		
Equity in pooled cash and cash equivalents	\$ 43,703	\$ 39,491
Cash and cash equivalents:		
In segregated accounts	-	152,736
Receivables:		
Property and other taxes	-	432,060
Due from other governments	-	13,229
Total assets	<u>\$ 43,703</u>	<u>\$ 637,516</u>
 <u>Liabilities:</u>		
Deposits held and due to others	43,703	-
Due to other governments	-	597,093
Undistributed monies	-	40,423
Total liabilities	<u>\$ 43,703</u>	<u>\$ 637,516</u>
 <u>Net assets:</u>		
Held in trust for other purposes	<u>\$ -</u>	

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2005

	<u>Private Purpose Trust</u>
<u>Additions:</u>	
Receipt of unclaimed money	<u>\$ 7,363</u>
<u>Deductions:</u>	
Claimed money	<u>155</u>
Change in net assets	7,208
Net assets at beginning of year	<u>36,495</u>
Net assets at end of year	<u><u>\$ 43,703</u></u>

See accompanying notes to the basic financial statements.

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CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

1. DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Massillon (the "City") was first incorporated by the Act of the State Legislature (the Act) as a town in 1838 under the Constitution of 1802. The Act establishing its incorporation was repealed in 1845 and Massillon was without municipal incorporation until March 10, 1853, when, under the provisions of the general act, it was incorporated as a village. Massillon has grown to a city of approximately 31,700 inhabitants, covering approximately 18.693 square miles. The City has a Mayor-Council form of government with three members of council elected at large and six others elected from separate wards for two-year terms. The Mayor is Chief Executive and Administrative Officer of the City and has a term of four years.

Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the City are fairly presented and complete. The primary government consists of all funds, departments, boards and commissions that are not legally separate from the City. The City provides municipal services such as police and fire protection, administration of justice, recreational activities, community planning and development, health and welfare programs, street maintenance, environmental services and other functions necessary for general government. The City also operates certain business-type operations such as sewer, refuse collection, and a golf course. The operations of all of these services are included in the reporting entity.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

The City is associated with the Stark Council of Governments, the Stark Area Regional Transit Authority, Stark County Tax Incentive Review Council, and Stark County Regional Planning Commission which are defined as Jointly Governed Organizations and the Local Organized Governments in Cooperation, which is defined as a Joint Venture. These organizations are presented in Note 17 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (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 City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities, and proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to follow FASB guidance for business-type activities and proprietary funds issued after November 30, 1989. The more significant of the City's accounting policies are described below.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

A. Basis of Accounting

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. 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 charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

B. Fund Accounting

The City 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 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 City's major governmental funds:

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

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

Lincoln Center bond retirement fund The Lincoln Center bond retirement fund is a debt service fund used to service the debt related to the bond anticipation notes and bonds issued to finance the Lincoln Center construction projects.

The other governmental funds of the City account for other debt servicing, grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds

Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Wastewater fund The wastewater fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Golf Course fund The golf course fund accounts for the operations, maintenance and debt financing of the City's Legends of Massillon Golf Course.

Solid Waste fund The solid waste fund accounts for the provision of solid waste removal for its residential and commercial customers located within the City.

Internal Service Fund

The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund reports on a self-insurance program for employee dental and vision benefits.

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 City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's trust fund is a private-purpose trust fund established to account for unclaimed funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The most significant of the City's agency funds account for property tax and court fine and forfeiture collections held for other entities and deposits held for the repair of fire damaged structures.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

Fund Financial Statements

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.

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On the accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 5). Revenue from grants, entitlements and donations is recognized in the 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 year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the 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 year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants 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 December 31, 2005, but which were levied to finance 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within each fund.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The original budgeted amounts reported on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The final budgeted amounts reported on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by Council. The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The original budgeted amounts reported reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The final budgeted amounts reported represent the final appropriation amounts passed by Council during the year.

F. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents". The Community Development special revenue fund, and the Massillon Bicentennial and Massillon Municipal Court agency funds maintain separate accounts and are reported as "cash in segregated accounts" in the financial statements.

During the year and at year-end, investments were limited to repurchase agreements. Investments are reported at fair value, which is based on quoted market prices, with the exception of nonparticipating repurchase agreements, which are reported at cost.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

H. Inventory

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories of governmental funds are stated at cost, while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure/expense in the governmental and proprietary funds when used under the consumption method.

I. Capital Assets

Governmental capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. Governmental capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

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 City maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Asset class</u>	<u>Estimated useful life</u>
Land improvements	7 to 40 years
Buildings	20 to 40 years
Vehicles	5 to 7 years
Machinery and equipment	2 to 15 years
Infrastructure	20 to 50 years

The City's infrastructure consists of sanitary sewers and current year improvements to general infrastructure assets (i.e. roads and storm sewers). GASB Statement No. 34 requires *prospective* reporting of general infrastructure assets from the date the government first implements the Statement. The Statement creates a transition period for the retroactive reporting of major general infrastructure assets. Based on these guidelines, governments are not required to report major general infrastructure assets acquired, reconstructed, improved, etc. between 1980 and the year of implementation through 2006. Only infrastructure capital assets acquired or constructed since 2003 are reflected in the basic financial statements for the fiscal year ended December 31, 2005.

J. Deferred Charges and Bond Premiums

In governmental fund types, bond premiums and issuance costs are recognized in the current period. Bond premiums and issuance costs for proprietary fund types are deferred and amortized over the term of the bonds using the bonds outstanding method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of bonds payable, whereas issuance costs are recorded as deferred charges.

K. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund loans, which do not represent available expendable resources, are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

L. Compensated Absences

Sick leave benefits are accrued as a liability using the termination method. The liability is based on the sick leave accumulated at December 31, by those employees whom it is estimated will become eligible to receive termination benefits in the future. The amount is based on accumulated sick leave and employees' wage rates at year-end, taking into consideration any limits specified in the City's termination policy.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

The City does not accrue a liability for vacation benefits as of December 31. The City's policy and various employment contracts allow employees to earn vacation leave based on the completion of a certain number of years of employment. The employees become eligible for the vacation benefits on or after January 1, with an exception made for first year employees. Vacation is not allowed to be carried forward to the following calendar year. After an employee completes one year of service, January 1 is considered their anniversary date for vacation purposes. Based on the City's policy and contracts, a liability for earned vacation leave exists on January 1. The January 1 liability is determined by the number of days posted to each employee's account and is based on the pay rate for the year taken.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits 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 long-term loans are recognized as a liability on the governmental fund financial statements when due.

N. Fund Balance Reserves

Reserves represent those portions of fund equity not available for appropriation in the following period or legally segregated for a specific future use. Fund balance reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Fund balances are reserved for encumbrances, loans and notes receivable.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing 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 constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes primarily include amounts to provide security of persons and property, leisure time activities, and economic development and assistance services.

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

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for golf course fees, solid waste removal, sewer treatment and self-insurance programs. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

Q. Contributions of Capital

Contributions of capital on the statement of activities and in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

R. Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

S. Estimates

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

3. BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances are recorded as the equivalent of an expenditure (budget basis) in order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation as opposed to a reservation of fund balance for governmental funds; and,
- (d) Advances-in and Advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

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

Net Change in Fund Balance	
GAAP Basis	\$ (513,732)
Revenue Accruals	(71,383)
Expenditure Accruals	378,983
Encumbrances (Budget Basis)	
Outstanding at year end	<u>(205,969)</u>
Budget Basis	<u>\$ (412,101)</u>

4. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the City 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 City 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 City Council has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Interim monies may be invested in the following obligations provided they are redeemable within five years of the date of settlement:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or 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 securities listed provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

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; and,
6. The State Treasurer's investment pool (Star Ohio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and,
3. Obligations of the City.

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 City, and must be purchased with the expectation that it will be held to maturity.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, 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 repayment of all public monies deposited with the institution.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits:

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The City's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of December 31, the carrying amount of the City's deposits was \$7,389,734. The City's bank balance of \$7,896,066 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department and in the City's name	\$ 7,390,208
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CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

Investments:

As of December 31, the City had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
Repurchase agreements	\$ 2,000,000	Daily	N/A ⁽¹⁾

⁽¹⁾ Underlying securities are exempt.

Interest earned on the deposits in the Massillon Bicentennial and the Massillon Municipal Court agency funds and certain street maintenance and repair special revenue funds are recorded in those funds as required by fiduciary agreements and state statute. All other interest is legally required to be placed in the general fund. Interest revenue credited to the general fund during 2005 amounted to \$346,059, which includes \$307,207 assigned from other City funds.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's \$2,000,000 investment in repurchase agreements is to be secured by the specific government securities upon which the repurchase agreements are based. These securities, held by the counterparty and not in the City's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The City's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Interest rate risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy places a five year limit on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

5. PROPERTY TAX

Property taxes include amounts levied against all real and public utility property, and tangible personal (used in business) property located in the City. Real property taxes were levied after October 1, 2004 on the assessed value as of January 1, 2004, the lien date, and were collected in 2005. Assessed values are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes received in 2005 attached as a lien on December 31, 2004, were levied after October 1, 2005, and are collected with real property taxes. Public utility property taxes are assessed on tangible personal property at 100% of true value and on real property at 35% of assessed valuation. 2004 tangible personal property taxes are levied after October 1, 2004, on the value listed as of December 31, 2004, and are collected in 2005. Tangible personal property assessments are 25% of true value. The full-tax rate for all City operations applied to taxable property for the year ended December 31, 2005, was \$4.70 per \$1,000 of assessed valuation.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

The assessed values upon which the 2005 taxes were collected are as follows:

<u>Property Category</u>	2004	
	<u>Assessed Value</u>	<u>Percent</u>
<u>Real Property</u>		
Residential and Agricultural	\$ 330,548,690	63.3 %
Commercial, Industrial, Mineral	95,301,540	18.3
Public Utilities	183,070	0.0
<u>Tangible Personal Property</u>		
General	72,012,302	13.8
Public Utilities	23,970,550	4.6
Total	<u>\$ 522,016,152</u>	<u>100.0 %</u>

Real and public utility 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 earlier or later payment dates to be established.

Tangible personal property taxes paid 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.

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portions of the taxes collected. The City collects property tax on behalf of the Massillon Museum and a portion for the school districts related to a tax incremental financing arrangement. The amounts collected are then distributed back out.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility, and tangible personal property taxes, which became measurable as of December 31, 2005. However, since these tax collections will not be received during the available period, nor intended to finance 2005 operations, the receivable is offset by a credit to deferred revenue.

6. INCOME TAX

The City levies and collects an income tax of 1.8% on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated taxes at least quarterly and to file a final return annually. Income tax revenues are distributed between the general fund (72.5%), capital improvements fund (10.83%) and parks and recreation fund (16.67%). The parks and recreation fund also allocates income tax revenues to the debt service bond retirement park and recreation fund as needed.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

7. RECEIVABLES

The City's most significant receivables within "due from other governments" consists of intergovernmental revenue to be received from other governments. A summary of this intergovernmental revenue, within governmental activities on the statement of net assets, is as follows:

<u>Revenue description</u>	<u>Amount</u>
Cents per gallon and excise tax	\$ 562,010
Rollback, homestead and tangible exemptions	80,779
Local government	786,782
Miscellaneous grants	209,687
OPWC grant	161,162
Motor vehicle tax	11,680
Public utility reimbursement	6,124
WIC reimbursements	<u>18,537</u>
Total	<u><u>\$ 1,836,761</u></u>

8. CAPITAL ASSETS

Governmental Activities: A summary of the governmental activities' capital assets as of December 31, 2005 follows:

<u>Governmental Activities</u>	<u>Balance 1/1/2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/2005</u>
Capital assets, not being depreciated:				
Land	\$ 8,062,633	\$ 579,000	\$ (668,818)	\$ 7,972,815
Construction in progress	<u>2,635,191</u>	<u>1,485,116</u>	<u>(2,676,899)</u>	<u>1,443,408</u>
Total capital assets, not being depreciated	<u>10,697,824</u>	<u>2,064,116</u>	<u>(3,345,717)</u>	<u>9,416,223</u>
Capital assets, being depreciated:				
Land improvements	3,184,260	123,195	-	3,307,455
Buildings	14,584,600	-	-	14,584,600
Vehicles	3,853,453	339,101	(195,514)	3,997,040
Machinery and equipment	2,588,355	197,944	(70,397)	2,715,902
Infrastructure	<u>1,746,081</u>	<u>2,676,899</u>	<u>-</u>	<u>4,422,980</u>
Total capital assets, being depreciated	<u>25,956,749</u>	<u>3,337,139</u>	<u>(265,911)</u>	<u>29,027,977</u>
Less accumulated depreciation:				
Land improvements	(520,861)	(75,752)	-	(596,613)
Buildings	(4,303,480)	(366,103)	-	(4,669,583)
Vehicles	(2,897,214)	(272,785)	187,074	(2,982,925)
Machinery and equipment	(1,280,994)	(161,398)	44,962	(1,397,430)
Infrastructure	<u>(55,208)</u>	<u>(197,421)</u>	<u>-</u>	<u>(252,629)</u>
Total accumulated depreciation	<u>(9,057,757)</u>	<u>(1,073,459)</u>	<u>232,036</u>	<u>(9,899,180)</u>
Total capital assets being depreciated, net	<u>16,898,992</u>	<u>2,263,680</u>	<u>(33,875)</u>	<u>19,128,797</u>
Governmental activities capital assets, net	<u><u>\$ 27,596,816</u></u>	<u><u>\$ 4,327,796</u></u>	<u><u>\$ (3,379,592)</u></u>	<u><u>\$ 28,545,020</u></u>

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

Depreciation Expense: Depreciation expense charged to governmental functions for the year ending December 31, 2005 is as follows:

<u>Depreciation Expense:</u>	
General government	\$ 145,606
Security of persons and property	242,001
Public health and welfare	567
Leisure time activities	419,460
Economic development and assistance	624
Transportation	<u>265,201</u>
Total depreciation expense	<u>\$ 1,073,459</u>

Business-type Activities: A summary of the business-type activities' capital assets as of December 31, 2005 follows:

<u>Business-Type Activities</u>	<u>Balance 1/1/2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/2005</u>
Capital assets, not being depreciated:				
Land	\$ 3,052,637	\$ -	\$ -	\$ 3,052,637
Construction in progress	<u>35,677,263</u>	<u>2,623,492</u>	<u>(20,100)</u>	<u>38,280,655</u>
Total capital assets, not being depreciated	<u>38,729,900</u>	<u>2,623,492</u>	<u>(20,100)</u>	<u>41,333,292</u>
Capital assets, being depreciated:				
Land improvements	2,117,426	-	-	2,117,426
Buildings	8,313,414	-	-	8,313,414
Vehicles	905,009	268,888	(13,244)	1,160,653
Machinery and equipment	2,231,718	179,195	(157,381)	2,253,532
Infrastructure	<u>10,233,713</u>	<u>20,100</u>	<u>-</u>	<u>10,253,813</u>
Total capital assets, being depreciated	<u>23,801,280</u>	<u>468,183</u>	<u>(170,625)</u>	<u>24,098,838</u>
Less accumulated depreciation:				
Land improvements	(1,066,019)	(107,068)	-	(1,173,087)
Buildings	(5,052,688)	(197,661)	-	(5,250,349)
Vehicles	(592,176)	(50,386)	13,244	(629,318)
Machinery and equipment	(1,498,514)	(161,957)	120,309	(1,540,162)
Infrastructure	<u>(5,435,650)</u>	<u>(252,414)</u>	<u>-</u>	<u>(5,688,064)</u>
Total accumulated depreciation	<u>(13,645,047)</u>	<u>(769,486)</u>	<u>133,553</u>	<u>(14,280,980)</u>
Total capital assets being depreciated, net	<u>10,156,233</u>	<u>(301,303)</u>	<u>(37,072)</u>	<u>9,817,858</u>
Business-type activities capital assets, net	<u>\$ 48,886,133</u>	<u>\$ 2,322,189</u>	<u>\$ (57,172)</u>	<u>\$ 51,151,150</u>

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

9. CAPITAL LEASES

The City leases various vehicles and equipment through capital leasing arrangements in the governmental and proprietary fund types. The assets and obligations for agreements of the governmental funds are recorded in the statement of net assets. Governmental capital assets attributable to capital leases consist of vehicles in the amount of \$380,437 and machinery and equipment in the amount of \$215,481. There are also \$392,733 in vehicles, and \$787,739 in equipment recorded as business-type capital assets as the result of capital lease agreements. The payments for these capital leases are shown on a GAAP basis as debt service expenditures in the general and other governmental funds. Payments related to lease agreements in the enterprise funds are shown as a reduction of capital leases payable and interest expense.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2005.

<u>Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2006	129,509	204,025
2007	79,432	173,451
2008	72,448	152,500
2009	<u>51,497</u>	<u>89,647</u>
Total minimum lease payments	332,886	619,623
Less: amount representing interest	<u>29,218</u>	<u>54,254</u>
Present value of minimum lease payments	<u>\$ 303,668</u>	<u>\$ 565,369</u>

10. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers for the year ended December 31, 2005, consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>		
	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Lincoln Center bond retirement	\$ 314,643	\$ -	\$ 314,643
Nonmajor governmental funds	<u>789,253</u>	<u>300,000</u>	<u>1,089,253</u>
Total	<u>\$ 1,103,896</u>	<u>\$ 300,000</u>	<u>\$ 1,403,896</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During the year ended December 31, 2005, the City made transfers totaling \$789,253 from the general fund to the police and fire pension funds and two debt service funds. In addition, the general fund transferred \$314,643 to the Lincoln Center bond retirement debt service fund. These transfers represent amounts necessary to carry out the purpose of the program prior to receiving additional funding and to cover shortages resulting from retiring debt and paying the employer's share of police and fire pensions. Also, a special revenue fund and debt service fund transferred a total of \$300,000 to a debt service fund.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

Interfund balances at December 31, 2005 consisted of the following:

	Interfund <u>Receivable</u>	Interfund <u>Payable</u>
General fund	\$ 70,000	\$ -
Golf course fund	-	90,000
Nonmajor governmental fund	<u>20,000</u>	<u>-</u>
Totals	<u>\$ 90,000</u>	<u>\$ 90,000</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of December 31, 2005, all interfund loans outstanding are anticipated to be repaid by 2015. The repayment schedule is specified in Ordinance 133-2005. The golf course fund will pay back the general and park and recreation fund as shown below:

	<u>2015</u>
General fund	\$ 70,000
Park and recreation fund	<u>20,000</u>
Totals	<u>\$ 90,000</u>

11. CONTRACTUAL COMMITMENTS

The City had several outstanding construction projects as of December 31, 2005. These projects are evidenced by contractual commitments with contractors and include:

	Spent to <u>date</u>	Commitment <u>remaining</u>
Wastewater treatment plant upgrade	\$ 37,264,065	\$ 1,638,845
Various street resurfacing projects	7,862	330,000
OPWC Richville Drive project	-	422,700
West Warmington pump station	462,231	20,949
Lincolnway West project	1,443,408	2,100,922
Lincolnway West pump station	<u>255,430</u>	<u>27,066</u>
Totals	<u>\$ 39,432,996</u>	<u>\$ 4,540,482</u>

Individual funds have been established to account for each of these projects. Therefore, each project is a commitment of the applicable fund. The Wastewater Treatment Plant Upgrade project is being financed with loans provided by the Ohio Water Development Authority. The other projects are being financed by current available revenues in the applicable funds.

12. CONDUIT DEBT OBLIGATIONS

The City has served as the issuer of an industrial development revenue bond totaling \$1,000,000. The proceeds were used to finance the costs of acquiring, constructing and installing robotic and other equipment and facilities improvements for a local manufacturer. The manufacturer will make the principal and interest payments on the bond. The industrial development revenue bond does not constitute a general obligation, debt or bonded indebtedness of the City.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

13. BONDED DEBT AND OTHER LONG-TERM OBLIGATIONS

A listing of changes in the bonds and other long-term obligations of the City for the year ended December 31, 2005 follows:

	<u>Balance 1/1/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2005</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
<u>General Obligation Bonds</u>					
2002 Lincoln Center					
Phase II Refunding, 1.5-4%	\$ 2,625,000	\$ -	\$ (230,000)	\$ 2,395,000	\$ 235,000
1994 Senior Center					
8.00-8.50%	1,155,000	-	(25,000)	1,130,000	25,000
2002 Park and Recreation, 5.2%	12,250,000	-	(75,000)	12,175,000	95,000
2004 Marketplace TIF, 1.5-4.2%					
Serial and Term Bonds	1,575,000	-	(80,000)	1,495,000	80,000
Capital Appreciation Bonds	109,999	-	-	109,999	-
Accretion on Bonds	7,701	10,916	-	18,617	-
Total General Obligation	<u>17,722,700</u>	<u>10,916</u>	<u>(410,000)</u>	<u>17,323,616</u>	<u>435,000</u>
<u>Bond Anticipation Notes</u>					
Lincoln Center, Phase III					
2005, 3.76%	-	2,993,000	-	2,993,000	2,993,000
2004, 2.67%	2,993,000	-	(2,993,000)	-	-
Total Bond Anticipation	<u>2,993,000</u>	<u>2,993,000</u>	<u>(2,993,000)</u>	<u>2,993,000</u>	<u>2,993,000</u>
<u>Special Assessment Bonds</u>					
1985 Street Improve- ments 9.125%	9,000	-	(9,000)	-	-
1995 Castle West Circle and Shaw Ave, 5.50%	30,000	-	(30,000)	-	-
Total Special Assessment	<u>39,000</u>	<u>-</u>	<u>(39,000)</u>	<u>-</u>	<u>-</u>
<u>Loans Payable</u>					
2005 OPWC loan	-	465,449		465,449	-
1999 HUD Section 108	2,080,000	-	(50,000)	2,030,000	55,000
Total Loans Payable	<u>2,080,000</u>	<u>465,449</u>	<u>(50,000)</u>	<u>2,495,449</u>	<u>55,000</u>
<u>Special Obligation Debt</u>					
1993 State Hospital, 0.0%	-	579,000	(300,000)	279,000	69,750
<u>Other Obligations</u>					
Police and firemen's pension liability	1,580,166	-	(26,110)	1,554,056	27,232
Long-term compensated absences	2,474,818	-	(386,720)	2,088,098	200,570
Capital leases payable	189,291	235,705	(121,328)	303,668	115,891
Total Governmental Activities	<u>\$ 27,078,975</u>	<u>\$ 4,284,070</u>	<u>\$ (4,326,158)</u>	<u>\$ 27,036,887</u>	<u>\$ 3,896,443</u>

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

	<u>Balance 1/1/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2005</u>	<u>Due within one year</u>
<u>Business-Type Activities</u>					
<u>General Obligation Bonds</u>					
2002 Wastewater Refunding Series 88, 1.5 - 3.0%	\$ 625,000	\$ -	\$ (150,000)	\$ 475,000	\$ 155,000
2002 Golf Course Construction Refunding, 1.5 - 7.16%	5,895,000	-	(65,000)	5,830,000	165,000
Unamortized Discount	(61,989)	-	4,094	(57,895)	-
Unamortized Deferred Cost	(198,846)	-	30,870	(167,976)	-
Capital Appreciation Bonds	1,226,233	-	-	1,226,233	-
Accretion on Bonds	54,358	29,024	-	83,382	-
Total General Obligation	7,539,756	29,024	(180,036)	7,388,744	320,000
<u>Special Obligation Debt</u>					
2001 State Hospital, 0%	14,069	-	-	14,069	-
<u>Loans Payable</u>					
1999 WPCL Fothergill, 3.81%	1,176,583	-	(56,926)	1,119,657	59,155
Wastewater Plant WPC, 3.2%	258,778	-	(258,778)	-	-
WWTP Upgrade OWDA, 1.26%	5,978,970	-	(307,904)	5,671,066	-
WWTP Upgrade OWDA, 1.26%	32,234,031	1,780,013	(1,584,628)	32,429,416	-
Total Loans	39,648,362	1,780,013	(2,208,236)	39,220,139	59,155
<u>Other Long-term Obligations</u>					
Capital leases	344,146	410,184	(188,961)	565,369	178,686
Compensated absences	560,174	20,694	(94,865)	486,003	59,145
Total Business-Type Activities	\$48,106,507	\$2,239,915	\$(2,672,098)	\$47,674,324	\$616,986

General Obligation Bonds: General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from voted and unvoted general property taxes. Property tax monies will be received in and the debt will be repaid from the bond retirement funds. The general obligation bonds reported as business-type fund obligations are payable from unvoted property tax revenues to the extent operating resources of the sewer enterprise fund are not available to meet the annual debt service requirements.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

The 2004 Marketplace TIF and the 2002 Golf Course Construction Refunding bond issues include serial and capital appreciation bonds. Current year additions to the 2004 Marketplace TIF and the 2002 Golf Course Construction Refunding bonds amounted to \$10,916 and \$29,024, respectively, which represent the accretion of discounted interest. The final amounts of the capital appreciation bonds will be \$285,000 and \$910,000, respectively.

Special Assessment Bonds: Special assessment bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefited from the project. Special assessment monies will be received in and the debt will be retired through the special assessment bond retirement debt service fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

Bond Anticipation Notes: During 2005, bond anticipation notes were issued for \$2,993,000 to finance the construction of the Lincoln Center complex. The bond anticipation notes were issued to encourage development in a redevelopment area. Revenues for payment of interest and principal on the bond result from service payments being made in lieu of taxes.

Loans Payable: The City has received a Section 108 loan from the U.S. Department of Housing and Urban Development (HUD) with the principal amount being \$2,250,000, which the City has in turn loaned the proceeds to the Downtown Massillon Hotel, Ltd (Developer). The City required that the Developer's loan be structured in such a manner that the Developer's repayment obligations will not be less than the City's annual Section 108 debt obligation to HUD. HUD arrangements require the City to pledge to HUD its present and future Community Development Block Grants (CDBG), whereas HUD may withhold CDBG funds from the City and apply funds to the repayment of the City's obligations, if not met.

The City also entered into an agreement with the Ohio Water Development Authority (OWDA) to upgrade and expand the City's wastewater treatment facility. The agreement provides loan proceeds totaling \$42.5 million which will be received by the City and used to fund the projects. The debt proceeds will be repaid by wastewater service charges semi-annually over 20 years at 1.26% per annum. Under the terms of the agreement, the OWDA will reimburse or directly pay the construction costs of the approved projects. The OWDA will capitalize administrative costs and construction interest and add them to the total of each loan. As of December 31, 2005, the City has owes \$38,100,482. An amortization schedule is not presented since repayment is not required until all proceeds have been received.

Special Obligation: In 2001, the City acquired a piece of land from the Massillon Psychiatric Center in exchange for services and a yearly payment of approximately \$25,712. Remaining obligations of the 2001 agreement are expected to be satisfied in 2006. Again in 2005, the City acquired additional land for a value of \$579,000 of which \$300,000 of this value was paid during 2005. The remaining balance is expected to be paid during 2006 and 2007.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

The annual requirements to amortize all governmental activity debt outstanding as of December 31, 2005, including interest payments, are as follows:

Year	General Obligation Bonds		Section 108 Loan	
	Principal	Interest	Principal	Interest
2006	\$ 435,000	\$ 845,794	\$ 55,000	\$ 158,076
2007	465,000	833,102	55,000	154,154
2008	500,000	818,548	60,000	150,183
2009	530,000	801,185	65,000	145,852
2010	595,000	781,710	70,000	141,174
2011-2015	3,929,999	3,539,309	425,000	618,848
2016-2020	2,905,000	2,466,060	1,300,000	361,368
2021-2025	3,310,000	1,655,160	-	-
2026-2030	3,765,000	801,000	-	-
2031	870,000	43,500	-	-
Total	<u>\$ 17,304,999</u>	<u>\$ 12,585,368</u>	<u>\$ 2,030,000</u>	<u>\$ 1,729,655</u>

The annual requirements to amortize all business-type activity debt outstanding as of December 31, 2005, including interest payments, are as follows:

Year	General Obligation Bonds		Water Pollution Control Loans	
	Principal	Interest	Principal	Interest
2006	\$ 320,000	\$ 303,923	\$ 59,116	\$ 42,101
2007	355,000	296,402	61,389	39,827
2008	365,000	286,995	63,750	37,466
2009	255,000	276,045	66,202	35,014
2010	260,000	267,885	68,748	32,468
2011-2015	945,707	1,605,118	385,499	120,583
2016-2020	1,430,526	1,101,995	414,954	40,519
2021-2025	1,410,000	727,462	-	-
2026-2030	1,780,000	358,625	-	-
2031	410,000	19,475	-	-
Total	<u>\$ 7,531,233</u>	<u>\$ 5,243,925</u>	<u>\$ 1,119,658</u>	<u>\$ 347,978</u>

Police and Firemen's Pension Liability: The City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire personnel in 1967. The liability is payable semiannually from the police pension and fire pension special revenue funds.

Compensated Absences: Sick leave benefits will be paid from the fund from which the person is paid. In prior years, this fund has primarily been the general fund.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

Debt Refundings: On November 1, 2002, the City issued \$3,065,000 in General Obligation Bonds with an average interest rate of 2.75% to advance refund \$2,805,000 of outstanding Lincoln Center 1994 Series bonds with an average interest rate of 5%. The net proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide future debt service payments on the Lincoln Center 1994 Series bonds. As a result, the Lincoln Center 1994 Series bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

Additionally, on November 1, 2002, the City issued \$920,000 and \$7,281,233 in General Obligation Bonds with an average interest rate of 2% and 4.3% to advance refund \$910,000 and \$2,510,000 of outstanding Sewer System 1988 Series bonds and Legends Golf Course 1995 Series bonds with an average interest rate of 6.94% and 5.2%, respectively. The net proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide future debt service payments on the Sewer System 1988 Series bonds and the Legends Golf Course 1995 Series bonds. As a result, the Sewer System 1988 Series bonds and Legends Golf Course 1995 Series bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$336,997 for the Legends Golf Course 1995 Series bonds and \$0 for the Sewer System 1988 Series bonds. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2015 using the outstanding bonds method.

Debt Limitation: The Ohio Revised Code provides that the City shall not incur net indebtedness that exceeds an amount equal to 10.5% of its tax valuation, or incur without a vote of the electors net indebtedness that exceeds an amount equal to 5.5% of that valuation.

14. DEFINED BENEFIT PENSION PLANS

All full-time employees of the City, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a multiple-employer, cost-sharing public employee retirement system administered by the Public Employees Retirement Board. All full-time uniformed City police participate in the Ohio Police and Fire Pension Fund (OP&F), also a multiple-employer, cost-sharing public employee retirement system. Both of these retirement plans provide basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits for OPERS and OP&F is provided by the Ohio State Legislature and are codified in the Ohio Revised Code, Chapters 145 and 742, respectively. Each retirement system prepares a stand-alone financial report that includes financial information and required supplementary information for the plans. These reports can be obtained by writing to OPERS at 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-2701 or (800) 222-7377 and OP&F at 140 East Town Street, Columbus, Ohio 43215-5164.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

OPERS: OPERS administers three separate pension plans; the Traditional Pension Plan (TP), a cost-sharing multiple-employer defined benefit pension plan; and the Member-Directed Plan (MD), which is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The third plan is the Combined Plan (CP), which is a cost-sharing multiple-employer defined benefit pension plan. Employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD plan.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2005, member and employer contribution rates were across all three plans (TP, MD and CP). Separate divisions for law enforcement and public safety exist only within the Traditional Plan. The 2005 member contribution rates were 8.5% for members in classifications other than law enforcement and public safety. Members in the law enforcement classification, which consist of sheriffs, deputy sheriffs, and township police contributed at a rate of 10.1%. Public safety division members contribute 9%. The 2005 employer contribution rate for employees other than law enforcement and public safety division was 13.55%. For both law enforcement and public safety divisions the employer contribution rate was 16.70%. Total required employer contributions for all plans (TP, MD and CP) are equal to 100% of employer charges. The City's contributions to OPERS for the years ended December 31, 2005, 2004 and 2003 were \$744,780, \$741,972 and \$696,871 respectively; 86.76% has been contributed for 2005 and 100 percent for 2004 and 2003. \$139,878, representing the unpaid contribution for 2005, is recorded as a liability within the respective funds.

OP&F: Plan members are required to contribute 10% of their covered salary to fund pension obligations, while employers are required to contribute 19.5% and 24.0%, respectively, for police officers and firefighters. Contributions are authorized by state statute. The City's required contributions to OP&F for the years ending December 31, 2005, 2004, and 2003 were \$694,084, \$666,414 and \$657,725, respectively. The full amount has been contributed for 2004 and 2003. Approximately 89% has been contributed for 2005 with the remainder being reported as a liability within the respective funds.

15. POSTEMPLOYMENT BENEFITS

OPERS administers three separate pension plans, the Traditional Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CP), all of which are described in Note 14. OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the TP and MD Plans; however, health care benefits are not statutorily guaranteed. Members of the MD Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the TP and CP plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2005 employer contribution rate for local government employers was 13.55% of covered payroll and 4.00% was the portion that was used to fund health care. For both the public

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

safety and law enforcement divisions the 2005 employer rate was 16.70% of covered payroll and 4.00% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

The assumptions and calculations below were based on OPERS's latest actuarial review performed as of December 31, 2004. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2004 was 8.00%. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

At year-end 2005, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 376,109. The number of active contributing participants for both plans used in the December 31, 2004 actuarial valuation was 355,287.

The actuarially accrued liability and the unfunded actuarially accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2004 (latest information available) was \$10.8 billion.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22, if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

The Ohio Revised Code provides the statutory authority allowing OP&F's Board of Trustees to offer health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2004 and in 2005. In addition, since July 1, 1992, most retirees and survivors were required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The numbers of participants eligible to receive health care benefits as of December 31, 2004, the date of the last actuarial valuation available, are 13,812 for Police and 10,528 for Firefighters.

The City's actual contributions for 2005 that were used to fund post-employment benefits were \$385,111.

OP&F's total health care expense for the year ending December 31, 2004, the date of the last actuarial valuation available, was \$102,173,796, which was net of member contributions of \$55,665,341.

16. RISK MANAGEMENT

The City 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. The City contracts with Public Entities Pool of Ohio (the Pool), a local government risk pool. The Pool was formed in 1986 for the primary purpose of managing and funding third party liability claims against its members. As a member of the Pool, the City is required to make annual budgetary contributions sufficient to annually produce a sum of money necessary to fund the administrative expenses and reinsurance expenses of the Pool to pay current year claims and claims expenses, and to fund any deficiencies in the Cumulative Reserve Fund. Contributions to the Cumulative Reserve Fund shall be made for the first six years of membership based on a sliding scale. The purpose of this fund is to maintain a reserve at a level equal to 300% of the total current basis rates of all members. No member shall be responsible for any claim, judgment or judgments against any other member except to the extent of the assets of the Cumulative Reserve Fund and the Budgetary Fund. However, if upon termination of the Pool the remaining assets of the Pool are insufficient to satisfy indebtedness of the Pool, such deficiency shall be made up by assessments against members of the Pool by a fair and reasonable method established by the Committee/Board. At year ended December 31, 2005 the Pool's total liabilities totaled \$17,062,414 and total assets equaled \$34,163,007.

Coverage by the Pool consists of \$2,000,000 in liability insurance with the City required to pay the first \$2,500 (a self insurance retention) per occurrence for general liability, and \$1,000 per occurrence for property and other risks. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

The financial statements of the Pool, audited by other accountants, are in conformity with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings as of December 31:

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	29,719,675	27,437,169
Liabilities	<u>(15,994,168)</u>	<u>(13,880,038)</u>
Net Assets	<u>\$ 13,725,507</u>	<u>\$ 13,557,131</u>
<u>Property Coverage</u>		
Assets	\$ 4,443,332	\$ 3,648,272
Liabilities	<u>(1,068,246)</u>	<u>(540,073)</u>
Net Assets	<u>\$ 3,375,086</u>	<u>\$ 3,108,199</u>

The City uses an internal service fund to record and report its self-funded health care insurance program. During 2003, the City changed its medical health insurance and is no longer completely self-insured, rather the City is now commercially insured. The City remains self-insured for vision and dental coverage for employees. The claims liability of \$674 reported in the fund at December 31, 2005, was estimated by third party administrators and is based on the requirements of GASB Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The City purchases stop-loss coverage of \$35,000 per employee. Changes in the fund's claims liability during 2004 and 2005 were:

	Balance at beginning <u>of year</u>	Current <u>year claims</u>	Claim <u>payments</u>	Balance at end <u>of year</u>
2004	\$ 3,618	32,920	33,669	\$ 2,869
2005	\$ 2,869	21,127	23,322	\$ 674

Workers Compensation coverage is provided by the State of Ohio and is based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

17. JOINTLY GOVERNED ORGANIZATIONS AND JOINT VENTURE

Jointly Governed Organizations

The City participates in the Stark Council of Governments (the Council), which is a statutorily created political subdivision of the State. The Council is jointly governed among Stark County municipalities and townships with twenty-four participants providing twenty-seven representatives. The Council's current functions include, but are not limited to, the funding and operation of the Stark County Metropolitan Narcotics Unit and the Canton Crime Lab.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

The City appoints a representative and has a membership share based on the percentage of contractual financial contributions to the total funding. Each participant is entitled to vote its percentage share. The board exercises total authority over the operation of the Council including budgeting, appropriating, contracting and designating management. Continued existence of the Council is not dependent on the City's continued participation. The Council does not provide specific financial benefits or impose specific financial burdens on the City. The City did not make any contributions during the year and does not have an equity interest in the Council. Financial statements of the Council can be obtained from the Stark Council of Governments, Canton, Ohio.

The City participates in the Stark Area Regional Transit Authority (Authority), which is a jointly governed organization between Stark County and the cities of Massillon, Canton and Alliance. A nine member Board of Trustees (the Board) oversees the operation of the Authority. The City appoints one of the nine members. Each member's control over the operation of the Authority is limited to its representation on the Board. The Board exercises total authority for the day-to-day operations of the Authority, which include budgeting, appropriating, contracting, and designating management. The City has no financial responsibility for any of the Authority's liabilities. Complete financial statements may be obtained from the Stark Area Regional Transit Authority, 1600 Gateway Boulevard, SE, Canton, Ohio.

The City participates in the Stark County Tax Incentive Review Council (the Council), which is a jointly governed organization, created as a regional council of governments pursuant to State statutes. The Council has twenty-four members, consisting of three members appointed by the County Commissioners, four members appointed by municipal corporations, ten members appointed by township trustees, one member from the county auditor's office and six members appointed by boards of education located within the Enterprise Zones of Stark County. The Council reviews and evaluates the performance of each Enterprise Zone Agreement. This body is advisory in nature and cannot directly impact an existing Enterprise Zone Agreement; however, the Council can make written recommendations to the legislative authority that approved the agreement. There is no cost associated with being a member of this Council. The continued existence of the Council is not dependent upon the City's continued participation and no measurable equity interest exists.

The City participates in the Stark County Regional Planning Commission (the Commission) which is a statutorily created political subdivision of the State. The Commission is jointly governed among Stark County, other cities, villages and townships. Of the forty-eight member board, the City appoints two members. The degree of control exercised by any participating government is limited to its representation on the board. The principal aim of the Commission is to provide comprehensive planning, both long and short range, dealing with the economic and physical environment of Stark County. The board exercises total authority for the day-to-day operations of the Commission. These include budgeting, appropriating, contracting, and designating management. The City has no financial responsibility for any of the Commission's liabilities. In 2005, the City contributed a nominal amount to the Commission, which represented less than 1% of total contributions. Complete financial statements may be obtained from the Stark County Regional Planning Commission, Stark County, Ohio.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005**

Joint Venture

The City participates in the Local Organized Governments in Cooperation (LOGIC), a statutorily created political subdivision of the State formed in 1986 to provide safety dispatching services. LOGIC is a joint venture among the City, Jackson Township, City of Canal Fulton, and Hills and Dales Village, with each participant providing one representative. Each representative has a membership share based on the percentage of contractual financial contributions to the total funding, and each participant is entitled to vote its percentage share. The board has total authority over the operation of LOGIC, including budgeting, appropriating, contracting, and designating management. Continued existence of LOGIC is dependent on the City's continued participation. LOGIC does not provide specific financial benefits or impose specific financial burdens on the City. During 2005, the City made contributions of \$343,221, but does not have an equity interest in LOGIC. Financial statements of LOGIC may be obtained from Local Organized Governments in Cooperation, Canton, Ohio.

18. FUND DEFICITS

As of December 31, 2005, the Legends Golf Course enterprise fund had a deficit net asset balance of \$1,869,750. In addition, the police pension and fire pension special revenue funds had deficit fund balances of \$136,561 and \$157,499 respectively. These deficits were a result of the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances in other funds, however, this is done when cash is needed rather than when accruals occur.

19. CONTINGENT LIABILITIES

A few claims and lawsuits are pending against the City. It is Management's opinion that the ultimate liability will be covered by insurance and/or will not have a material effect on the financial statements. The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City's management believes such disallowances, if any, will be immaterial.

CITY OF MASSILLON
STARK COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2005

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>				
<i>Passed Through Ohio Department of Education and the City of Canton</i>				
Special Supplemental Nutrition Program for Women, Infants and Children	01-76201FCL389	10.557	\$101,995	102,230
Child and Adult Care Food Program	092965-CCCN-2004 092965-CCMO-2004	10.558	58,044 <u>107,248</u>	47,897 <u>100,705</u>
Total Child and Adult Care Food Program			165,292	148,602
Total U.S. Department of Agriculture			267,287	250,832
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>				
<i>Passed Through Ohio Department of Public Safety</i>				
State and Community Highway Safety	5000	20.600	10,000	10,000
<i>Passed Through Ohio Department of Transportation</i>				
Highway Planning and Construction	03N082-9527	20.205	<u>65,557</u>	<u>65,557</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
<i>Direct</i>				
Community Development Block Grants/Entitlement Grants		14.218	1,093,544	1,200,769
<i>Passed Through Stark County HOME Consortium</i>				
HOME Investment Partnerships Program	M04DC390204	14.239	<u>151,578</u>	<u>129,603</u>
Total U.S. Department of Housing and Urban Development			1,245,122	1,330,371
<u>U.S. DEPARTMENT OF JUSTICE:</u>				
<i>Passed Through Ohio Office of Criminal Justice Services</i>				
Local Law Enforcement Block Grant Program	2004DDBX1322 2005DJBX0058 2005BUBX05025753/2004B	16.592	19,790 23,000 <u>4,802</u>	19,740 <u>4,802</u>
Total Local Law Enforcement Block Grants Program			47,592	24,542
Violence Against Women Formula Grants	2002WFVA2-8225	16.588	<u>36,372</u>	<u>36,372</u>
Total U.S. Department of Justice			83,964	60,914
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>				
<i>Passed Through the Ohio Department of Health</i>				
Centers for Disease Control and Prevention_ Investigations and Technical Assistance	7620012BI06	93.283	7,840	6,561
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>				
<i>Direct</i>				
Assistance to Firefighters	EMW2004-FG-02775 EMW2003-FG-03582	97.044	66,492 <u>53,040</u>	66,492 <u>61,208</u>
Total U.S. Department of Homeland Security			119,532	127,700
Totals			<u>\$1,799,302</u>	<u>\$1,851,936</u>

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

**CITY OF MASSILLON
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
DECEMBER 31, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - SUBRECIPIENTS

The City passes-through certain federal assistance received from the U.S. Department of Housing and Urban Development to other governments or not-for-profit agencies (subrecipients). As described in Note A, the City records expenditures of federal awards to subrecipients when paid in cash.

The subrecipient agencies have certain compliance responsibilities related to administering these federal programs. Under Federal Circular A-133, the City is responsible for monitoring subrecipients to help assure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved.

NOTE C - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAM

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households. The U.S. Department of Housing and Urban Development (HUD) grants money for these loans to the City. The initial loan of this money is recorded as an expenditure on the Schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as an expenditure on the Schedule.

These loans are collateralized by a deed of trust of mortgage in favor of the City upon all land, buildings, fixtures, equipment, and other assets of the applicant comprising the project, and by the applicant's personal guarantee of repayment, unconditionally and irrevocably guaranteeing repayment of the revolving loan funds of the City. At December 31, 2005, the gross amount of loans outstanding under this program was \$3,425,384. Of this balance, \$20,978 is presented on the Balance Sheet as "Loans Receivable" and \$3,404,406 is presented on the Balance Sheet as "Notes Receivable" since the City actually holds a mortgage note for the amount loaned to the developer.

NOTE D - MATCHING REQUIREMENTS

Certain federal programs require that the City contribute non-federal funds (matching funds) to support the federally-funded programs. The City has complied with the matching requirements. The expenditure of non-federal matching funds is not included on the Schedule.



**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**

City of Massillon
Stark County
One James Duncan Plaza
Massillon, Ohio 44646

To the Honorable Mayor and City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Massillon, Stark County, Ohio, (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 15, 2006. 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 City'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. In a separate letter to the City's management dated September 15, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City'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 an instance of noncompliance or other matters we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2005-001. In a separate letter to the City's management dated September 15, 2006, we reported other matters related to noncompliance we deemed immaterial.

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City of Massillon
Stark County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, City Council, 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

September 15, 2006



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

City of Massillon
Stark County
One James Duncan Plaza
Massillon, Ohio 44646

To the Honorable Mayor and City Council:

Compliance

We have audited the compliance of City of Massillon, Stark County, Ohio, (the City) 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 December 31, 2005. The summary of auditor's results section of the accompanying Schedule of Findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the City'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 City'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 City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

The City'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 City'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.

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, City Council, 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

September 15, 2006

**CITY OF MASSILLON
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #14.218 – Community Development Block Grants/Entitlement Grants
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2005-001

Material Noncompliance

Ohio Rev. Code Section 9.38 indicates that monies should be deposited with the City Treasurer or designated depository within 24 hours of collection and requires that monies be deposited on the next business day if the daily receipt amounts exceed \$1,000. If daily receipts do not exceed \$1,000 and the receipts can be safeguarded, the public office may adopt a policy permitting their officials who receive money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it.

During 2005 the following conditions were noted:

- 6 out of 40 (18%) recreation center receipts were not deposited with the City Treasurer or designated depository for a period ranging from 2 to 3 days after initial receipt of the money. In addition, 11 out of 40 (28%) had an incorrect City Treasurer date stamp (e.g., 1 receipt was stamped 3/36/05 and in 10 cases the dates were ranging from 9 to 20 days before the deposit).
- 6 out of 60 (10%) income tax receipts were not deposited with the City Treasurer or designated depository for a period ranging from 2 to 3 days after initial receipt of the money. In addition, 17 out of 60 (28%) had an incorrect City Treasurer date stamp (e.g. stamped 1/32/05, 3/32/05, or 20 days before the deposit was received).
- 12 out of 20 (60%) of utility receipts were not deposited with the City Treasurer or designated depository for a period ranging from 2 to 7 days after initial receipt of the money. In addition, 1 out of 20 (5%) had an incorrect City Treasurer date stamp (e.g. stamped 5 days before the deposit was received).
- 3 out of 40 (8%) of golf course receipts were not deposited with the City Treasurer or designated depository for a period ranging from 2 to 3 days after initial receipt of the money. In addition, 7 out of 40 (18%) had an incorrect Treasurer's date stamped (e.g., stamped 9 to 20 days before the deposit).

Although the City adopted a policy permitting officials to hold daily receipts that do not exceed \$1,000 for no later than 3 business days after initial receipt, as allowed by the code section, the aforementioned department officials had daily receipts that exceeded the \$1,000 limit. Delays of this nature could cause City daily receipts to be lost or misplaced without being detected in a timely manner. In addition, since the City Treasurer is the depository agent for the City, the date stamp is an integral part of the deposit procedure. Although a date stamp machine is used by the City Treasurer at the time the monies are deposited, the dates are not routinely updated or, on several occasions, an inaccurate date was stamped.

The City should properly safeguard receipts and implement Ohio Rev Code Section 9.38 relative to depositing requirements and procedures. In addition, the City should consider obtaining an automatic date stamp machine or implement procedures to ensure the date and time are updated daily. This will help ensure the City is in compliance with Ohio Rev Code Section 9.38.

Officials' Response: According to the City Treasurer on or about April 28, 2006 the Treasurer's office sent out a copy of the Ohio Revised Code and the City of Massillon's policy for proper depositing of the City funds. In addition the Treasurer's office checked into purchasing an automatic time stamp machine that will automatically change the date at month's end. Due to the limitation of information on the stamp from an automatic time stamp machine, the Treasurer has chosen to continue with the current stamp machine with the instillation of several safeguards for the date to be reset at month's end

FINDING NUMBER 2005-001 (Continued)

According to the Director Parks & Recreation the Legends Golf Course has already rectified the situation. We are making deposits daily with the exception of weekends and holiday.

According to the Director Parks & Recreation the Recreation Center has adopted new policy and procedures to make sure that this does not happen in the future. We will do our due diligence in making sure that the findings are not reoccurring in 2006 and beyond.

According to the Tax Administrator/Collections Supervisor for the Income Tax and Utility Billing Department, all payments received with these Departments are deposited with the City Treasurer on a daily basis and within 48 hours of receipt. The daily procedures are in compliance with the ORC. There are a few exceptions regarding these procedures.

According to the Tax Administrator/Collections Supervisor during the last few weeks prior to tax filing deadline, the volume of mail received is massive within the Income Tax Department. As a result, for that brief period of time, some deposits are not made within the State mandates.

According to the Tax Administrator/Collections Supervisor the Utility bills are mailed on a quarterly basis in January, April, July and October. Bills are mailed on or about the 3rd of the month and payments are due by the 25th of the month. For that three (3) week period, the Department receives an extremely high volume of mail. The staff also is responsible for the high volume of walk-in payments during this time period. Even with additional staff, it would be impossible to make all deposits within 48 hours of receipt. We are considering a few changes to the procedures which will affect our deposits, i.e., staggering employee shifts to allow time to be worked without interruption by phone calls and payments made in person at our office.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**CITY OF MASSILLON
STARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Revised Code Section 9.38 , Not all City deposits were made within one business day of receipt.	No	See Schedule of Findings item #2005-001.



**Auditor of State
Betty Montgomery**

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CITY OF MASSILLON

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
SEPTEMBER 28, 2006**