



**Auditor of State
Betty Montgomery**

**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Massillon City School District
Stark County
207 Oak Street SE
Massillon, Ohio 44646

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Massillon City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Massillon City School District, Stark County, Ohio, as of June 30, 2003, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis and is not a required part of the basic financial statements. We subjected the 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

March 31, 2004

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

It is a privilege to present to you the financial picture of the Massillon City School District (School District). The discussion and analysis of Massillon City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- ◆ In total, net assets of governmental activities increased \$16,771,021.
- ◆ Revenues for governmental activities totaled \$59,674,430 in 2003. Of this total, \$52,238,651 or approximately 87.5 percent consisted of General revenues while program revenues accounted for the balance of \$7,435,779 or approximately 12.5 percent.
- ◆ Total assets of governmental activities increased by \$26,679,672 which includes a cash and cash equivalent increase of \$11,433,729, an intergovernmental receivable increase of \$16,337,775 and a decrease in capital assets of \$1,327,786.
- ◆ The School District had \$42,903,409 in expenses related to governmental activities; only \$7,435,779 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and school foundation) of \$52,238,651 were adequate to provide for these programs.
- ◆ Program expenses totaled \$42,903,409. Instructional expenses made up \$22,260,015 or 51.9 percent of this total while support services accounted for \$16,570,120 or 38.6 percent. Other expenses, \$4,073,274 rounded out the remaining 9.5 percent.

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains all the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the questions, "Are we in a better financial position this year than last?" and "Why?" or "Why not?"

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The *Statement of Net Assets* and the *Statement of Activities* answers these questions. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, similar to the accounting used by most private-sector companies. Accrual 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 School District's net assets and changes in those assets. This change in net assets states to the readers whether or not the School District's financial situation has improved or declined. The causes of these changes may be the result of many factors; some financial, some not. A few of those variables may include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and numerous other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, the School District is classified into governmental activities. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, operation of non-instructional activities, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

The School District as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002:

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table I
 Net Assets
 Governmental Activities

	2003	2002
Assets		
Current and Other Assets	\$58,856,588	\$30,849,130
Capital Assets, Net	21,153,296	22,481,082
<i>Total Assets</i>	<u>80,009,884</u>	<u>53,330,212</u>
Liabilities		
Current Liabilities	20,159,683	19,358,501
Long-term Liabilities		
Due within One Year	2,029,788	3,056,616
Due Within More Than One Year	19,951,922	9,817,625
<i>Total Liabilities</i>	<u>42,141,393</u>	<u>32,232,742</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	13,903,618	13,816,404
Restricted For:		
Capital Projects	16,529,272	147,145
Debt Service	242,025	239,939
Other Purpose	868,700	2,144,365
Unrestricted	6,324,876	4,749,617
<i>Total Net Assets</i>	<u>\$37,868,491</u>	<u>\$21,097,470</u>

Total assets increased \$26.7 million dollars. The majority of this increase can be attributed directly to cash received from the sale of bonds and the construction grant approved for the Ohio School Facilities construction project for the new middle school.

Total liabilities increased by \$9.9 million dollars. The most notable area that increased was long term liabilities due to the School District incurring long term debt for the Ohio School Facilities construction project for the new middle school.

The vast majority of revenues supporting governmental activities are the general revenues. General revenue totaled \$52.2 million dollars which is approximately 87.5 percent of total revenue. The most significant portions of the general revenue are the grants and entitlements section which is approximately 60.6 percent of total revenue. The grants and entitlements consist of state foundation, Ohio School Facilities Commission grant, homestead and rollback, and personal property tax exemption. Property taxes account for 26.0 percent of total revenues, interest income accounts for 0.7 percent of total revenue, and miscellaneous revenue accounts for 0.3 percent of total revenues. The remaining amount of revenue

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

received was in the form of program revenues, which equated to \$7,435,779 or 12.5 percent of total revenue.

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
 Governmental Activities

	2003
Program Revenues	
Charges for Services and Sales	\$1,677,248
Operating Grants, Contributions and Interest	5,745,536
Capital Grants and Contributions	12,995
<i>Total Program Revenues</i>	<i>7,435,779</i>
General Revenues	
Property Taxes	15,497,281
Grants and Entitlements	36,134,186
Investments	425,138
Miscellaneous	182,046
<i>Total General Revenues</i>	<i>52,238,651</i>
Total Revenues	59,674,430
Program Expenses	
Instruction:	
Regular	15,972,207
Special	4,041,931
Vocational	2,205,180
Adult/Continuing	40,697
Support Services:	
Pupil	2,098,833
Instructional Staff	1,563,067
Board of Education	115,148
Administration	3,208,220
Fiscal	1,137,249
Business	406,254
Operations and Maintenance of Plant	6,313,433
Pupil Transportation	1,202,543
Central	525,373
Operation of Food Services	1,323,876
Other Non-Instructional Services	457,499
Extracurricular Activities	1,589,707
Interest and Fiscal Charges	702,192
<i>Total Program Expenses</i>	<i>42,903,409</i>
Increase in Net Assets	\$16,771,021

Massillon City School District
Management's Discussion and Analysis
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Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. The School District's revenue growth is mostly dependent upon property tax increases and new construction. Property taxes made up 26.0 percent of revenues for governmental activities for Massillon City School District in fiscal year 2003. Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating cost.

Instruction comprises 51.9 percent of governmental program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 38.6 percent. The remaining 9.5 percent of program expenses is used for other obligations of the School District such as non-instructional services, extracurricular activities and interest and fiscal charges.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons to 2003 have been made in Table 3.

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	Total Cost of Services	Net Cost of Services
Program Expenses		
Instruction:		
Regular	\$15,972,207	\$14,190,677
Special	4,041,931	2,661,785
Vocational	2,205,180	1,983,206
Adult/Continuing	40,697	6,452
Support Services:		
Pupil	2,098,833	1,593,655
Instructional Staff	1,563,067	938,264
Board of Education	115,148	113,310
Administration	3,208,220	2,875,786
Fiscal	1,137,249	1,102,997
Business	406,254	399,758
Operation and Maintenance of Plant	6,313,433	6,171,392
Pupil Transportation	1,202,543	1,166,987
Central	525,373	512,475
Operation of Food Services	1,323,876	48,221
Other Non-Instructional Services	457,499	95,001
Extracurricular Activities	1,589,707	905,472
Interest and Fiscal Charges	702,192	702,192
<i>Total</i>	\$42,903,409	\$35,467,630

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The dependence upon tax revenues for governmental activities is apparent. 26.0 percent of expenses are directly supported by local property taxes. Grant and entitlements not restricted to specific programs support 30.0 percent and the Ohio School Facilities Commission grant supports 30.7 percent of the costs. Program revenues only account for 12.5 percent of all governmental expenses. Program revenues include charges for services, grants and contributions that are program specific. Surrounding schools with resident students attending Massillon City School District pay the School District \$4,949 per pupil under Ohio's open enrollment plan. The community, as a whole, is by far the primary support for the Massillon City School District students.

The School District's Funds

Information about the School District's major funds start on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$43,972,830 and expenditures of \$42,927,973.

General Fund Budgeting Highlights

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

During the course of fiscal year 2003, the School District amended its general fund budget several times. The most significant amendments occurred due to changes in the expenditure priorities in the buildings. For the general fund, the final budget basis revenue was \$30,707,171 representing a \$510,024 increase from the original budget estimate of \$30,197,147. Most of this difference is due to an underestimation of intergovernmental revenues. The original budget estimate was amended with the June 2003 amended certificate of resources. The School District's general fund unencumbered cash balance at the end of the fiscal year was \$6,574,234 reflecting additional funds budgeted but not expended or encumbered.

For the other non-significant budget amendments, the School District uses a site-based style of budgeting and has in place systems that are designed to tightly control site budgets but provide flexibility for site management. Building principals are given a per pupil allocation for textbooks, instructional materials and equipment.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the School District had \$21,153,296 invested in land, buildings, equipment and vehicles. Table 4 shows fiscal 2003 values compared to 2002. More detailed information is presented in Note 7 of the notes to the basic financial statements.

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Capital Assets at June 30 Governmental Activities		
	2003	2002
Land	\$8,347,828	\$8,347,828
Buildings and Improvements	9,308,024	10,174,296
Furniture and Equipment	2,722,576	3,103,881
Vehicles	774,868	855,077
Total Capital Assets	\$21,153,296	\$22,481,082

All capital assets, except land, are reported net of depreciation. As one can see, the main changes in capital assets during the fiscal year occurred in buildings and improvements and furniture and equipment. The changes were due primarily to depreciation in those areas.

For fiscal year 2003, Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional materials and supplies. For fiscal year 2003, this amounted to \$644,733 for each purpose. The School District had qualifying disbursements or offsets exceeding both the capital and maintenance requirement and the textbook and instructional materials and supplies requirement. More detailed information is presented in Note 20 of the notes to the basic financial statements.

Debt

At June 30, 2002, the School District had \$8,664,678 in 1994 high school general obligation bonds outstanding with \$1,415,000 due within one year. At June 30, 2003, there was \$7,249,678 outstanding and the amount due within one year was \$1,480,000. During 2003, the School District issued \$11,800,000 in general obligation bonds for middle school improvements. The amount due within one year for these bonds is \$125,000.

During fiscal year 2003 the School District reduced its notes outstanding from \$2,440,917 to \$892,498. The only note remaining as of June 30, 2003 is a State vocational school note.

At June 30, 2003, the School District's overall legal debt margin was \$16,001,753 with an unvoted debt margin of \$399,622. The School District maintains an Aaa bond rating. A more detailed presentation is included in Note 15 and Note 16 of the notes to the basic financial statements.

School District Outlook

Massillon City School District has continued to maintain the highest standards of service to our students, parents and community. The School District is always presented with challenges and opportunities. Recent national events and their impact on the Massillon City School District and the surrounding areas are very much under review and analysis. Economic recession will continue to impact our primary industries. However, the City of Massillon has seen an increase in residential housing evidenced by several new single home developments and condominium growth. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its five year forecast.

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The financial future of the School District is not without its challenges though. These challenges are internal and external in nature. The internal challenges will continue to exist, as the School District must rely heavily on local property taxes to fund its operations. Thus, management must diligently plan expenses by carefully operating within its five-year forecast. Additional revenues not projected must not be treated as a windfall to expand programs but as an opportunity to extend the time horizon of the five-year forecast.

Externally, the State of Ohio was found by the Ohio Supreme court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

In general, it is expected that the decision would result in an increase in overall State funding for education.

The concern is that, to meet the requirements of the court, the State may require the redistribution of commercial and industrial property taxes. With 41.49 percent of the taxes for the School District coming from local businesses and industry, one can see the significant impact this change would have on the School District and ultimately, the residential taxpayers. This percentage was taken from the SF-3 report of the Ohio Department of Education, Division of School Finance, June No 2 payment, fiscal year 2003.

As a result of the challenges mentioned above, it is imperative that the School District's management continue to carefully and prudently plan to provide the resources required to meet student needs over the next several years.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the School District's finances and show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Teresa L. Emmerling, Treasurer, at Massillon City School District, 207 Oak St SE, Massillon, Ohio 44646.

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Massillon City School District

Statement of Net Assets

June 30, 2003

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$23,572,135
Accounts Receivable	3,454
Intergovernmental Receivable	16,944,337
Prepaid Items	49,386
Inventory Held for Resale	19,439
Materials and Supplies Inventory	12,467
Deferred Charges	216,741
Property Taxes Receivable	18,038,629
Nondepreciable Capital Assets	8,347,828
Depreciable Capital Assets, Net	<u>12,805,468</u>
<i>Total Assets</i>	<u>80,009,884</u>
Liabilities	
Accounts Payable	234,711
Accrued Wages and Benefits	2,343,607
Contracts Payable	201,427
Intergovernmental Payable	1,359,456
Accrued Interest Payable	137,004
Matured Compensated Absences Payable	22,344
Deferred Revenue	15,861,134
Long-Term Liabilities:	
Due Within One Year	2,029,788
Due In More Than One Year	<u>19,951,922</u>
<i>Total Liabilities</i>	<u>42,141,393</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	13,903,618
Restricted for:	
Capital Projects	16,529,272
Debt Service	242,025
Other Purposes	868,700
Unrestricted	<u>6,324,876</u>
<i>Total Net Assets</i>	<u><u>\$37,868,491</u></u>

See accompanying notes to the basic financial statements

Massillon City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$15,972,207	\$219,298	\$1,562,232	\$0	(\$14,190,677)
Special	4,041,931	40,708	1,339,438	0	(2,661,785)
Vocational	2,205,180	54,125	154,854	12,995	(1,983,206)
Adult/Continuing	40,697	0	34,245	0	(6,452)
Support Services:					
Pupil	2,098,833	22,726	482,452	0	(1,593,655)
Instructional Staff	1,563,067	17,780	607,023	0	(938,264)
Board of Education	115,148	1,838	0	0	(113,310)
Administration	3,208,220	44,765	287,669	0	(2,875,786)
Fiscal	1,137,249	17,313	16,939	0	(1,102,997)
Business	406,254	6,496	0	0	(399,758)
Operation and Maintenance of Plant	6,313,433	89,281	52,760	0	(6,171,392)
Pupil Transportation	1,202,543	17,241	18,315	0	(1,166,987)
Central	525,373	3,219	9,679	0	(512,475)
Operation of Non-Instructional Services:					
Operation of Food Services	1,323,876	458,223	817,432	0	(48,221)
Other Non-Instructional Services	457,499	0	362,498	0	(95,001)
Extracurricular Activities	1,589,707	684,235	0	0	(905,472)
Interest and Fiscal Charges	702,192	0	0	0	(702,192)
Totals	\$42,903,409	\$1,677,248	\$5,745,536	\$12,995	(35,467,630)

General Revenues

Property Taxes Levied for:	
General Purposes	13,639,034
Other Purposes	77,484
Debt Service	1,754,035
Capital Outlay	26,728
Grants and Entitlements not Restricted to Specific Programs	17,824,437
Grants for Capital Projects	18,309,749
Investment Earnings	425,138
Miscellaneous	182,046
Total General Revenues	52,238,651
Change in Net Assets	16,771,021
<i>Net Assets Beginning of Year - See Note 3</i>	21,097,470
<i>Net Assets End of Year</i>	\$37,868,491

See accompanying notes to the basic financial statements

Massillon City School District

Balance Sheet

Governmental Funds

June 30, 2003

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$9,172,214	\$949,302	\$11,717,975	\$1,732,644	\$23,572,135
Property Taxes Receivable	15,247,829	1,859,158	650,934	280,708	18,038,629
Accounts Receivable	2,644	0	0	810	3,454
Intergovernmental Receivable	1,984	0	16,528,451	413,902	16,944,337
Interfund Receivable	998,566	0	0	0	998,566
Prepaid Items	49,386	0	0	0	49,386
Inventory Held for Resale	0	0	0	19,439	19,439
Materials and Supplies Inventory	6,566	0	0	5,901	12,467
<i>Total Assets</i>	<u>\$25,479,189</u>	<u>\$2,808,460</u>	<u>\$28,897,360</u>	<u>\$2,453,404</u>	<u>\$59,638,413</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$145,405	\$0	\$0	\$89,306	\$234,711
Contracts Payable	0	0	201,427	0	201,427
Accrued Wages and Benefits	1,974,166	0	0	369,441	2,343,607
Interfund Payable	0	913,734	0	84,832	998,566
Intergovernmental Payable	737,779	0	0	129,283	867,062
Matured Compensated Absences Payable	17,144	0	0	5,200	22,344
Deferred Revenue	14,224,959	1,663,758	16,943,360	378,032	33,210,109
State Vocational Loan Payable	892,498	0	0	0	892,498
<i>Total Liabilities</i>	<u>17,991,951</u>	<u>2,577,492</u>	<u>17,144,787</u>	<u>1,056,094</u>	<u>38,770,324</u>
Fund Balances					
Reserved for Encumbrances	2,352,125	0	903,389	177,756	3,433,270
Reserved for Property Taxes	1,022,870	195,400	15,230	0	1,233,500
Unreserved:					
Undesignated, Reported in:					
General Fund	4,112,243	0	0	0	4,112,243
Special Revenue Funds	0	0	0	1,178,825	1,178,825
Debt Service Fund	0	35,568	0	0	35,568
Capital Projects Funds	0	0	10,833,954	40,729	10,874,683
<i>Total Fund Balances</i>	<u>7,487,238</u>	<u>230,968</u>	<u>11,752,573</u>	<u>1,397,310</u>	<u>20,868,089</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$25,479,189</u>	<u>\$2,808,460</u>	<u>\$28,897,360</u>	<u>\$2,453,404</u>	<u>\$59,638,413</u>

See accompanying notes to the basic financial statements

Massillon City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2003*

Total Governmental Fund Balances	\$20,868,089
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	21,153,296
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	
Property Taxes	943,995
Intergovernmental	<u>16,404,980</u>
Total	17,348,975
Bond issuance costs reported as an expenditure in the funds are allocated as an expense over the life of the bonds on a full accrual basis.	
Issuance Cost	226,593
Current Year Expense	<u>(9,852)</u>
Total	216,741
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(137,004)
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(492,394)
Long-term liabilities, including bonds and compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.	
Compensated Absences	(2,039,534)
General Obligation Bonds	<u>(19,049,678)</u>
Total	<u>(21,089,212)</u>
 <i>Net Assets of Governmental Activities</i>	 <u><u>\$37,868,491</u></u>

Massillon City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$14,006,984	\$1,761,834	\$15,230	\$77,484	\$15,861,532
Intergovernmental	17,587,630	208,898	2,002,093	5,832,019	25,630,640
Interest	284,138	0	138,657	6,391	429,186
Tuition and Fees	491,105	0	0	41,198	532,303
Extracurricular Activities	0	0	0	627,159	627,159
Contributions and Donations	1,268	0	0	190,910	192,178
Charges for Services	12,728	0	0	480,409	493,137
Rentals	15,803	0	0	8,846	24,649
Miscellaneous	70,154	104,071	2,604	5,217	182,046
<i>Total Revenues</i>	<u>32,469,810</u>	<u>2,074,803</u>	<u>2,158,584</u>	<u>7,269,633</u>	<u>43,972,830</u>
Expenditures					
Current:					
Instruction:					
Regular	12,651,420	0	0	2,058,779	14,710,199
Special	2,510,108	0	0	1,489,712	3,999,820
Vocational	2,053,303	0	0	95,971	2,149,274
Adult/Continuing	0	0	0	40,697	40,697
Support Services:					
Pupil	1,412,965	0	0	661,783	2,074,748
Instructional Staff	753,219	0	0	751,957	1,505,176
Board of Education	114,960	0	0	0	114,960
Administration	2,767,440	0	0	336,556	3,103,996
Fiscal	1,055,120	0	0	61,081	1,116,201
Business	403,066	0	0	0	403,066
Operation and Maintenance of Plant	4,747,616	0	0	40,279	4,787,895
Pupil Transportation	1,074,933	0	0	44,123	1,119,056
Central	189,303	0	0	21,110	210,413
Operation of Non-Instructional Services:					
Operation of Food Services	0	0	0	1,282,969	1,282,969
Other Non-Instructional Services	1,733	0	0	451,954	453,687
Extracurricular Activities	674,471	0	0	682,373	1,356,844
Capital Outlay	13,224	0	508,222	1,590,532	2,111,978
Debt Service:					
Principal Retirement	0	1,415,000	0	0	1,415,000
Interest and Fiscal Charges	44,593	700,808	0	0	745,401
Issuance Costs	0	0	197,789	28,804	226,593
<i>Total Expenditures</i>	<u>30,467,474</u>	<u>2,115,808</u>	<u>706,011</u>	<u>9,638,680</u>	<u>42,927,973</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,002,336</u>	<u>(41,005)</u>	<u>1,452,573</u>	<u>(2,369,047)</u>	<u>1,044,857</u>
Other Financing Sources (Uses)					
Sale of Capital Assets	22,603	0	0	720	23,323
General Obligation Bonds Issued	0	0	10,300,000	1,500,000	11,800,000
Transfers In	2,171	0	0	0	2,171
Transfers Out	0	(2,171)	0	0	(2,171)
<i>Total Other Financing Sources (Uses)</i>	<u>24,774</u>	<u>(2,171)</u>	<u>10,300,000</u>	<u>1,500,720</u>	<u>11,823,323</u>
<i>Net Change in Fund Balances</i>	2,027,110	(43,176)	11,752,573	(868,327)	12,868,180
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>					
	<u>5,460,128</u>	<u>274,144</u>	<u>0</u>	<u>2,265,637</u>	<u>7,999,909</u>
<i>Fund Balances End of Year</i>	<u>\$7,487,238</u>	<u>\$230,968</u>	<u>\$11,752,573</u>	<u>\$1,397,310</u>	<u>\$20,868,089</u>

See accompanying notes to the basic financial statements

Massillon City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds \$12,868,180

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

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

Capital Asset Additions	190,226
Current Year Depreciation	<u>(1,482,227)</u>

Total	(1,292,001)
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Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (35,785)

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

Delinquent Property Taxes	(369,314)
Intergovernmental	<u>16,065,851</u>

Total	15,696,537
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Receipt of bond proceeds is a revenue in the governmental funds, but the issuance of bonds increases long-term liabilities in the statement of net assets. (11,800,000)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,415,000

Bond issuance costs are reported as an expenditure in the governmental funds but are allocated as an expense over the life of the bonds on a full accrual basis.

Issuance Cost	226,593
Current Year Expense	<u>(9,852)</u>

Total	216,741
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 53,061

Some expenses reported in the statement of activities, such as compensated absences and contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(270,888)
Pension Obligation	<u>(79,824)</u>

Total	<u>(350,712)</u>
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Change in Net Assets of Governmental Activities \$16,771,021

Massillon City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2003

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$13,733,696	\$13,081,283	\$13,081,283	\$0
Income Taxes	358,796	358,796	358,796	0
Intergovernmental	15,333,820	16,450,645	16,232,255	(218,390)
Interest	200,000	221,289	221,289	0
Tuition and Fees	441,535	491,302	491,302	0
Contributions and Donations	1,300	1,268	1,268	0
Charges for Services	0	12,728	12,728	0
Rentals	18,000	21,323	21,323	0
Miscellaneous	110,000	68,537	68,537	0
<i>Total Revenues</i>	<u>30,197,147</u>	<u>30,707,171</u>	<u>30,488,781</u>	<u>(218,390)</u>
Expenditures				
Current:				
Instruction:				
Regular	38,704,695	12,409,145	12,409,129	16
Special	578,256	3,654,236	3,654,241	(5)
Vocational	5,547	2,075,735	2,075,742	(7)
Adult/Continuing	1,470	0	0	0
Support Services:				
Pupil	215,000	1,693,132	1,693,129	3
Instructional Staff	13,267	790,448	790,446	2
Board of Education	37,493	108,916	108,916	0
Administration	32,628	2,810,791	2,810,794	(3)
Fiscal	48,615	1,367,855	1,367,855	0
Business	3,898	496,864	496,866	(2)
Operation and Maintenance of Plant	203,633	5,206,304	5,206,308	(4)
Pupil Transportation	156,968	1,243,795	1,243,796	(1)
Central	0	186,670	186,673	(3)
Operation of Non-Instructional Services	0	2,175	2,176	(1)
Extracurricular Activities	0	687,458	687,453	5
Capital Outlay	0	22,869	22,869	0
<i>Total Expenditures</i>	<u>40,001,470</u>	<u>32,756,393</u>	<u>32,756,393</u>	<u>0</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(9,804,323)</u>	<u>(2,049,222)</u>	<u>(2,267,612)</u>	<u>(218,390)</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	12,000	22,603	22,603	0
Advances In	815,801	1,509,033	9,033	(1,500,000)
Advances Out	0	(2,494,450)	(994,450)	1,500,000
Transfers In	1,700,000	2,171	2,171	0
<i>Total Other Financing Sources (Uses)</i>	<u>2,527,801</u>	<u>(960,643)</u>	<u>(960,643)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(7,276,522)</u>	<u>(3,009,865)</u>	<u>(3,228,255)</u>	<u>(218,390)</u>
<i>Fund Balance Beginning of Year</i>	8,272,511	8,272,511	8,272,511	0
Prior Year Encumbrances Appropriated	<u>1,529,978</u>	<u>1,529,978</u>	<u>1,529,978</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$2,525,967</u>	<u>\$6,792,624</u>	<u>\$6,574,234</u>	<u>(\$218,390)</u>

Massillon City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$25,337	\$113,976
Liabilities		
Due to Students	0	\$113,976
Net Assets		
Held in Trust for Scholarships	\$25,337	

See accompanying notes to the basic financial statements

Massillon City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2003

	<u>Scholarship</u>
Additions	
Interest	\$621
Deductions	
	<u>0</u>
<i>Change in Net Assets</i>	621
<i>Net Assets Beginning of Year</i>	<u>24,716</u>
<i>Net Assets End of Year</i>	<u><u>\$25,337</u></u>

See accompanying notes to the basic financial statements

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 1 - Description of the School District and Reporting Entity

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

The School District is located in Stark County and encompasses the entire City of Massillon. It controls the School District's 10 instructional/support facilities staffed by 216 classified employees, 353 certificated full-time teaching personnel, and 29 administrators who provide services to 4,443 students and other community members.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, agencies and offices that are not legally separate from the School District. For Massillon City School District, this includes general operations, food service and student related activities of the School District.

Non-public Schools – Within the School District boundaries, St. Barb's, St. Mary's and St. John's are operated as non-public schools. Current State legislature provides funding to these non-public schools. These monies are received and disbursed on behalf of the schools by the Treasurer of the School District, as directed by the nonpublic schools. These transactions are reported as a governmental activity of the School District.

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

The School District participates in one jointly governed organization and two public entity risk pools. These organizations are the Stark/Portage Area Computer Consortium (SPARCC), the Stark County Schools Council of Governments Health Benefit Plan and the Stark County Schools Council of Governments Workers' Compensation Group Rating Plan. They are presented in Notes 17 and 18.

Note 2 - Summary of Significant Accounting Policies

The financial statements of Massillon City School District 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The School District'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 School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. 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 School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the year, the School District segregates transactions related to certain School District 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 School District at this more detailed level. The focus of governmental 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. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

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

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

Bond Retirement Debt Service Fund - The bond retirement fund accounts for property tax revenue collections for the payment of general long-term debt principal, interest and related costs.

Classroom Facilities Capital Projects Fund - This fund accounts for property tax and interest revenues received and expended in connection with contracts entered into by the School District and Ohio Department of Education for the building and equipping of classroom facilities.

The other governmental funds of the School District account for grants and other resources whose uses are restricted to a particular purpose.

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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust which accounts for a college scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for student activities.

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 School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenditures) 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, 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus.

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 and statements for the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 8). Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 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.

Expenditures/Expenses 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, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, 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 amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Budgetary modifications at this level require a resolution of the Board of Education. The treasurer has been given authority to allocate Board appropriations to the function and object levels within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original and final appropriations were adopted.

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

F. Cash and Investments

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2003, investments were limited to Federal National Mortgage Association Notes, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes, Federal Farm Credit Bank Notes, repurchase agreements, certificates of deposit and STAROhio.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit and repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$284,138, which includes \$113,160 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of materials and supplies held for consumption and donated and purchased food.

I. Capital Assets

The School District's only capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture and Equipment	8 - 20 years
Vehicles	10 -15 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The entire compensated absence liability is reported on the government-wide financial statements.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employee who has accumulated unpaid leave is paid.

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Assets

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

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

N. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances and property taxes.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

O. Interfund Activity

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

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

Q. Estimates

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

Note 3 - Change in Accounting Principles and Restatement of Fund Balance

Changes in Accounting Principles For fiscal year 2003, the School District has implemented GASB Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, GASB Statement No. 41, “Budgetary Comparison Schedules - Perspective Differences”, and GASB Interpretation No. 6 “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.”

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

On the government-wide financial statements, the beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the reclassification of funds based on the guidance provided in Statement No. 34 and the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management’s Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparisons for the general and each major special revenue fund. This statement did not affect the presentation of the budgetary statements of the School District.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Restatement of Fund Balance For the School District, it was determined that enterprise funds should be reclassified to special revenue funds. The new standards for reporting fund obligations for compensated absences in Interpretation 6 also caused changes in previously reported fund balances. The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Bond Retirement	Nonmajor	Total
Fund Balances, June 30, 2002	\$5,355,547	\$274,144	\$1,785,554	\$7,415,245
Fund Reclassification	71,193	0	480,083	551,276
Interpretation No. 6				
Compensated Absences	33,388	0	0	33,388
Adjusted Fund Balances, June 30, 2002	<u>\$5,460,128</u>	<u>\$274,144</u>	<u>\$2,265,637</u>	7,999,909
GASB 34 Adjustments:				
Capital Assets				22,481,082
Pension Obligations				(412,570)
Accrued Interest				(190,065)
Long-Term Liabilities:				
Compensated Absences				(1,768,646)
General Obligation Bonds				(8,664,678)
Long-Term (Deferred) Assets				1,652,438
Governmental Activities Net Assets, June 30, 2002				<u>\$21,097,470</u>

Note 4 – Accountability and Compliance

A. Accountability

Fund balances at June 30, 2003, included the following individual fund deficits:

<i>Special Revenue Funds:</i>	
Career Development	\$4,566
Public Preschool	7,900
Disadvantaged Pupil Impact Aid	158,279
Miscellaneous State Grants	4,789
Carl Perkins Grant	26,888
Drug Free Schools Grant	548
Preschool Grants Handicap	1,826

The special revenue deficit balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

B. Compliance

The following funds had total final appropriations in excess of estimated resources plus carryover balances in violation of Section 5705.39, Ohio Revised Code.

	Estimated Resources Plus Carryover Balances	Final Appropriations	Excess
<i>Special Revenue Funds:</i>			
Public Preschool Fund	\$164,560	\$166,333	\$1,773
Adult Communication Education Fund	92,720	105,976	13,256
Miscellaneous Federal Grants	795,619	923,811	128,192
Drug Free Grant	25,460	36,622	11,162
CIP Grant	25,943	36,654	10,711
Title VI - R	247,355	282,891	35,536

Although not all of these violations were corrected by fiscal year end, management has indicated that appropriations will be closely monitored to ensure no future violations.

Note 5 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Proceeds from and principal payment on tax and revenue anticipation notes are reported on the operating statement (budget basis) rather than on the balance sheet (GAAP basis).
5. The School District repays short-term note debt from the debt service fund (budget basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance	
GAAP Basis	\$2,027,110
Net Adjustment for Revenue Accruals	(433,569)
Revenue for Debt Repayment	(1,609,666)
Advances In	9,033
Ending Fair Value Adjustment for Investments	62,206
Net Adjustment for Expenditure Accruals	184,965
Debt Service:	
Interest	61,247
Advances Out	(994,450)
Encumbrances	<u>(2,535,131)</u>
Budget Basis	<u><u>(\$3,228,255)</u></u>

Note 6 - Deposits and Investments

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

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

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

Interim deposits are deposits of interim moneys. Interim moneys are those moneys 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 deposits maturing not more than one year from the date of deposit or by savings accounts including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rates in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

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

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

Cash on Hand At year-end, the School District had \$150 in undeposited cash on hand, which is included on the financial statements of the School District as part of equity in pooled cash and cash equivalents.

Deposits At year-end, the carrying amount of the School District's deposits was \$7,798,205 and the bank balance was \$13,155,928. Of the bank balance

1. \$235,092 was covered by federal depository insurance and,
2. \$12,920,836 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institutions trust department or agent in the

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. Investments at June 30, 2003 consist of the following:

	Category 3	Carrying Value	Fair Value
Federal National Mortgage Association Notes	\$2,736,854	\$2,736,854	\$2,736,854
Federal Home Loan Bank Notes	2,003,556	2,003,556	2,003,556
Federal Home Loan Mortgage Corporation Notes	985,433	985,433	985,433
Federal Farm Credit Bank Notes	997,280	997,280	997,280
Repurchase Agreement	3,485,000	3,485,000	3,485,000
STAROhio		5,704,970	5,704,970
Total Investments	<u>\$10,208,123</u>	<u>\$15,913,093</u>	<u>\$15,913,093</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting". A reconciliation between the classifications of cash and investments in the combined financial statements and the classification per GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$23,711,448	\$0
Cash on Hand	(150)	
Investments which are part of the cash management pool:		
Federal National Mortgage Association Notes	(2,736,854)	2,736,854
Federal Home Loan Bank Notes	(2,003,556)	2,003,556
Federal Home Loan Mortgage Corporation Notes	(985,433)	985,433
Federal Farm Credit Bank Notes	(997,280)	997,280
Repurchase Agreement	(3,485,000)	3,485,000
STAROhio	(5,704,970)	5,704,970
GASB Statement No. 3	<u>\$7,798,205</u>	<u>\$15,913,093</u>

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 7 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

Governmental Activities	Balance 6/30/2002	Additions	Deductions	Balance 6/30/2003
<i>Capital Assets not being Depreciated:</i>				
Land	\$8,347,828	\$0	\$0	\$8,347,828
<i>Capital Assets being Depreciated:</i>				
Buildings and Improvements	25,555,953	0	0	25,555,953
Furniture and Equipment	7,964,787	190,226	(46,185)	8,108,828
Vehicles	1,979,385	0	0	1,979,385
<i>Total Capital Assets being Depreciated</i>	<u>35,500,125</u>	<u>190,226</u>	<u>(46,185)</u>	<u>35,644,166</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(15,381,657)	(866,272)	0	(16,247,929)
Furniture and Equipment	(4,860,906)	(535,746)	10,400	(5,386,252)
Vehicles	(1,124,308)	(80,209)	0	(1,204,517)
<i>Total Accumulated Depreciation</i>	<u>(21,366,871)</u>	<u>(1,482,227) *</u>	<u>10,400</u>	<u>(22,838,698)</u>
<i>Total Assets being Depreciated, Net</i>	<u>14,133,254</u>	<u>(1,292,001)</u>	<u>(35,785)</u>	<u>12,805,468</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$22,481,082</u>	<u>(\$1,292,001)</u>	<u>(\$35,785)</u>	<u>\$21,153,296</u>

* Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$920,423
Special	1,511
Vocational	46,585
Support Services:	
Pupil	6,611
Instructional Staff	48,626
Board of Education	188
Administration	70,186
Fiscal	6,445
Operation and Maintenance of Plant	46,980
Pupil Transportation	67,583
Operation of Non-Instructional Services:	
Operation of Food Services	27,361
Other Non-Instructional Services	120
Extracurricular Activities	239,608
Total Depreciation Expense	<u>\$1,482,227</u>

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 8 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Stark County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003 was \$1,022,870 in the general fund, \$195,400 in the bond retirement debt service fund, and \$15,230 in the classroom facilities capital projects fund. The amount available as an advance at June 30, 2002, was \$351,460 in the general fund and \$47,550 in the bond retirement debt service fund.

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

Massillon City School District
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For the Fiscal Year Ended June 30, 2003

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$308,855,041	76.12 %	\$306,007,430	76.57 %
Public Utility Personal	23,322,370	5.75	23,235,310	5.82
Tangible Personal Property	73,592,750	18.13	70,379,470	17.61
Total	<u><u>\$405,770,161</u></u>	<u><u>100.00 %</u></u>	<u><u>\$399,622,210</u></u>	<u><u>100.00 %</u></u>
 Tax rate per \$1,000 of assessed valuation	 \$50.50		 \$52.30	

Note 9 - Receivables

A. Intergovernmental Receivables

Receivables at June 30, 2003, consisted of taxes, accounts (rent, student fees and tuition), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables are expected to be collected within one year except for the Ohio School Facilities Commission Grant.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Ohio School Facilities Commission Grant	\$16,528,451
Title I Grant	172,228
Food Service	93,175
Title VI - B Grant	69,571
Title VI - R Grant	49,877
Carl Perkins Grant	16,746
Miscellaneous Federal Grants	8,686
Drug Free Schools Grant	3,619
E - Rate Reimbursement	1,984
Total Intergovernmental Receivables	<u><u>\$16,944,337</u></u>

In July 2002, the School District signed a project agreement with the Ohio School Facilities Commission to abate and demolish two middle schools and build one new middle school. The State and local portions of the project are \$18,309,749 and \$10,300,000, respectively.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

B. Income Tax Receivable

The School District levies a voted tax of three fourths of one percent for general operations on the income of residents and of estates. The tax was effective January 1, 1998. This tax levy is for four years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund. Fiscal year 2003 was the last year the income tax will be collected by the School District.

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the School District contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Coverage</u>	<u>Amount</u>
Harcum-Hyre Insurance Agency	Liability	\$1,000,000
	Educational Liability	3,000,000
Indiana Insurance Group	Buildings and Contents	68,041,859
	Automobile Liability	2,000,000
	General Liability	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from the prior year.

B. Employee Health Benefits

The School District participates in the Stark County Schools Council of Governments Health Benefit Plan, a shared risk pool (Note 18) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The School District's Board of Education pays the entire cost of a monthly premium

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

C. Workers' Compensation

The School District participates in the Stark County Schools Council of Governments Workers' Compensation Group Rating Plan, an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

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

Note 11 - Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$441,975, \$255,969 and \$175,398 respectively; 45.89 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

Massillon City School District
Notes to the Basic Financial Statements
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The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$2,256,536, \$1,531,535, and \$1,351,390 respectively; 78.99 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$5,424 made by the School District and \$13,898 made by the plan members.

Note 12 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$173,580 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$465,521.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003, were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 13 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. All employees earn three days of personal leave per year. This may not be accumulated. Classified employees earn five to twenty-five days of vacation per fiscal year, depending upon length of service. Vacation days may be accumulated up to a maximum of 25 days. Accumulated, unused vacation time is paid to classified employees termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 303 days for all personnel. Upon completion of ten or more years of service to the School District, State, or other political subdivision, and retirement from the profession, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 74 days for certified employees and 50 days for classified employees.

B. Life Insurance

The School District provides life insurance and accidental death and dismemberment insurance to employees through Stark County Schools Council of Governments Health Benefit Plan (SCOG). Coverage in the amount of \$50,000 is provided for all certified and classified employees depending on salary, with a maximum overall coverage of \$70,000.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Note 14 – Interfund Transactions

A. Interfund Transfers

During the fiscal year, the bond retirement fund transferred \$2,171 to the general fund. The reason for the transfer was to move revenue incorrectly posted during fiscal year 2003.

B. Interfund Balances

Interfund Payable	Interfund Receivable General
<i>Major Fund:</i>	
Bond Retirement	\$913,734
<i>Nonmajor Funds:</i>	
Other Local Grants	217
Auxiliary Services	44,977
Career Development	4,566
Miscellaneous State Grants	5,379
Title VI-B	11,191
Carl Perkins Grant	16,746
Preschool Grants Handicap	1,756
Total	\$998,566

The loan made to the Bond Retirement fund was to make a payment on the new loan. The loans to the Auxiliary Services and Career Development special revenue funds were made to support programs and projects in these funds. The interfund payable in the Other Local Grants, Miscellaneous State Grants, Title VI-B, Carl Perkins Grant and the Preschool Grants Handicap fund were due to the timing of the receipt of grant monies received by the funds.

Note 15 – Short Term Debt

A summary of the loan and note activity for the fiscal year ended June 30, 2003 follows:

	Principal Outstanding 6/30/02	Additions	Deductions	Principal Outstanding 6/30/03
<i>General Fund</i>				
1998 School Foundation Loan - 4.44%	\$1,293,421	\$0	\$1,293,421	\$0
<i>Bond Retirement Fund</i>				
2002 Various Purpose				
Improvement Note - 2.10%	0	10,850,000	10,850,000	0
<i>Total Short Term Debt</i>	\$1,293,421	\$10,850,000	\$12,143,421	\$0

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

The school foundation loan was paid with State foundation revenues. The Various Purpose Improvement note was issued as the local portion of the Ohio School Commission Facilities project. It was bonded in 2003. The loan and note were backed by full faith and credit of the School District.

Note 16 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2003 were as follows:

	Principal Outstanding 6/30/02	Additions	Deductions	Principal Outstanding 6/30/03	Amounts Due in One Year
<i>Governmental Activities:</i>					
2003 Middle School General					
Obligation Bonds - 2.0% - 4.0%	\$0	\$11,800,000	\$0	\$11,800,000	\$125,000
1994 High School					
Obligation Bonds - 2.5% - 5.3%	8,664,678	0	1,415,000	7,249,678	1,480,000
Total General Obligation Bonds	8,664,678	11,800,000	1,415,000	19,049,678	1,605,000
<i>Other Long-Term Obligations:</i>					
1991 State Vocational					
School Loan - 0.0%	1,147,496	0	254,998	892,498	254,999
Compensated Absences	1,768,646	364,085	93,197	2,039,534	169,789
<i>Total General Long-Term Obligations</i>	<u>\$11,580,820</u>	<u>\$12,164,085</u>	<u>\$1,763,195</u>	<u>\$21,981,710</u>	<u>\$2,029,788</u>

During fiscal year 2003, the School District issued \$11,800,000 in general obligation various purpose improvement bonds to be used to pay off the short-term note. The note was issued with the intent to purchase land and construct a new middle school. The 1994 high school general obligation bonds were used to renovate and improve the high school. In 1991, the State loaned the School District monies for vocational education.

The general obligation bonds will be paid from the Bond Retirement debt service fund. The State Vocational School loan will be paid from foundation revenue in the general fund. The 1994 high school general obligation bonds will mature on December 1st, 2011 and the 2003 middle school general obligation bonds will mature on December 1st, 2026. Compensated absences will be paid from the General fund, the Food Service, Athletics, Auxiliary Services, Public Pre-school, Disadvantaged Pupil Impact Aid, Ohio Reads, Title VI-B, Carl Perkins Grant, Title I, Drug Free Schools Grant, Title VI-R and Miscellaneous Federal Grants special revenue funds.

The School District's overall debt margin was \$16,001,753 with an unvoted debt margin of \$399,622 at June 30, 2003. Principal and interest requirements to retire the general obligation bonds follow:

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

Fiscal Year Ending June 30,	General Obligation Bonds		State Vocational School Loan	
	Principal	Interest	Principal	Interest
2004	\$1,605,000	\$792,385	\$254,999	\$0
2005	1,755,000	720,200	254,999	0
2006	1,835,000	642,413	254,999	0
2007	1,920,000	559,113	127,501	0
2008	503,638	2,034,014	0	0
2009 - 2013	2,321,040	8,765,046	0	0
2014 - 2018	2,465,000	2,006,975	0	0
2019 - 2023	3,685,000	1,224,606	0	0
2024 - 2026	2,960,000	228,350	0	0
Total	<u>\$19,049,678</u>	<u>\$16,973,102</u>	<u>\$892,498</u>	<u>\$0</u>

Note 17 - Jointly Governed Organization

Stark/Portage Area Computer Consortium The Stark/Portage Area Computer Consortium (SPARCC) is a jointly governed organization created as a regional council of governments pursuant to State statutes made up of public school districts and county boards of education from Stark, Portage, and Carroll Counties. The primary function of SPARCC is to provide data processing services to its member districts with the major emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by SPARCC include student scheduling, registration, grade reporting, and test scoring. Each member district pays an annual fee for the services provided by SPARCC.

SPARCC is governed by a board of directors comprised of each Superintendent within the Consortium. The Stark County Educational Service Center serves as the fiscal agent of the Consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and financing of SPARCC is limited to its voting authority and any representation it may have on the board of directors. The continued existence of SPARCC is not dependent on the District's continued participation and no equity interest exists. Massillon City School District paid \$82,289 to SPARCC during fiscal year 2003 for services. Financial information can be obtained by writing the Stark/Portage Area Computer Consortium, 2100 38th Street NW, Canton, Ohio 44709.

Note 18 – Public Entity Risk Pools

A. Risk Sharing Pool

The Stark County Schools Council of Governments Health Benefit Plan (Council) is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The council is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the council. All council revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

B. Insurance Purchasing Pool

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

Note 19 - Contingencies

A. Grants

The School District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

As of June 30, 2003, the School District was a party to various legal proceedings. The amount of the liability, if any, cannot be reasonably estimated at this time.

Note 20 - Set-Aside Calculations

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

The following cash basis information describes the changes in the year-end set-aside amounts for textbooks and capital acquisitions. Disclosure of this information is required by the State statute.

	Textbooks	Capital Improvements
Set-aside Reserve Balance as of June 30, 2002	\$53,551	\$19,908
Current Year Set-aside Requirement	644,733	644,733
Qualifying Disbursements	(858,434)	(872,951)
Totals	(\$160,150)	(\$208,310)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$160,150)	\$0
Set-aside Reserve Balance as of June 30, 2003	\$0	\$0

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

The School District has qualifying disbursements during the fiscal year that reduced the textbooks and the capital improvements set-aside amounts below zero. The negative set-aside balance for the textbooks may be used to reduce the set-aside requirement of future years. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years.

Note 21 - State School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

Note 22 - Subsequent Event

On December 18, 2003, the State Auditor's Office determined that the School District met the conditions set forth in the Ohio Department of Education's "Guidelines for Release from Fiscal Watch", and was officially removed from fiscal watch status on that date.

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MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF EDUCATION						
<i>(Passed Through Ohio Department of Education)</i>						
Title I, Part A, ESEA	044354C1S102	84.010	\$79,738		\$246,261	
	044354C1S103		928,525		852,624	
Total Title I, Part A, ESEA			1,008,263		1,098,885	
<u>Special Education Cluster</u>						
Special Education - Grants to States	0443546BSF02P	84.027	1,440		124,210	
	0443546BSF03P		535,779		533,400	
	0443546BII02P		15,210		15,210	
Total Special Education - Grants to States			552,429		672,820	
Special Education - Preschool Grants	0443546BEC01P	84.173	0		127	
	044354PGS102P		0		165	
	044354PGS103P		13,158		13,158	
Total Special Education - Preschool Grants			13,158		13,450	
Total Special Education Cluster			565,587		686,270	
Adult Education State Grant Program	044354ABS103	84.002	48,106		48,106	
Improving Teacher Quality State Grants	044354TRS103	84.367	255,240		278,329	
Vocational Education Basic Grants to States	044354VECPIS2001092	84.048	0		566	
	044354VECPIS2002092		4,303		4,824	
	044354VECPIS2003092		98,874		115,520	
	044354VEAR2002092		3,220		22,260	
Total Vocational Education Basic Grants to States			106,397		143,170	
Comprehensive School Reform Demonstration	044354RFCC2003	84.332	38,260		27,437	
	044354RFS12001		18,500		135,753	
	044354RFS102A		100,000		74,024	
	044354RFS22002		168,750		112,910	
Total Comprehensive School Reform Demonstration			325,510		350,124	
Goals 2000 - State and Local Education Systemic Improvement Grants	044354G5S22001	84.276	0		7,292	
	044354G2S92001		(11,514)		5,186	
Total Goals 2000 - State and Local Education Systemic Improvement Grants			(11,514)		12,478	
Safe and Drug-Free Schools Grant	044354DRS12002	84.186	(426)		542	
	044354DRS12003		24,937		20,922	
Total Safe and Drug-Free Schools Grant			24,511		21,464	
Innovative Education Program Strategies	044354C2S12001	84.298	0		16,259	
	044354C2S12002		4,847		13,771	
	044354C2S12003		30,044		22,837	
Total Innovative Education Program Strategies			34,891		52,867	
Reading Excellence Grant	044354RNS12000	84.338	0		151,339	
Twenty-First Century Community Learning Centers	N/A	84.287	78,489		183,843	
	044354T1S12003		198,100		153,092	
Total Twenty-First Century Community Learning Centers			276,589		336,935	
School Renovation Grant	N/A	84.352	(785)		2,215	
			945		945	
Total School Renovation Grant			160		3,160	
Technology Literacy Challenge Fund Grants	044354TJS12003	84.318	26,751		10,388	
Total U.S. Department of Education			2,660,491		3,193,515	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>(Passed through the Ohio Department of Mental Retardation and Developmental Disabilities)</i>						
Medical Assistance Program (CAFS)	N/A	93.778	81,280		55,232	
U.S. DEPARTMENT OF JUSTICE						
<i>(Passed through the Ohio Department of Youth Services)</i>						
Juvenile Accountability Incentive Block Grant	N/A	16.523	54,000		54,000	
U.S. DEPARTMENT OF AGRICULTURE						
<i>(Passed Through Ohio Department of Education)</i>						
<u>Child Nutrition Cluster</u>						
Food Distribution Program	N/A	10.550		\$103,560		\$103,560
National School Breakfast Program	N/A	10.553	40,585		40,585	
National School Lunch Program	N/A	10.555	671,841		671,841	
Total U.S. Department of Agriculture/ Child Nutrition Cluster			712,426	103,560	712,426	103,560
Totals			\$3,508,197	\$103,560	\$4,015,173	\$103,560

See accompanying Notes to Schedule of Receipts and Expenditures of Federal Awards

**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

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

Massillon City School District
Stark County
207 Oak Street SE
Massillon, Ohio 44646

To the Board of Education:

We have audited the basic financial statements of Massillon City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated March 31, 2004, which indicated the District adopted GASB Statement 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated March 31, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2003-001 and 2003-002.

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www.auditor.state.oh.us

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

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated March 31, 2004.

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

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

Betty Montgomery
Auditor of State

March 31, 2004



**Auditor of State
Betty Montgomery**

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

Massillon City School District
Stark County
207 Oak Street SE
Massillon, Ohio 44646

Compliance

We have audited the compliance of the Massillon City School District, Stark County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings as item 2003-003.

We also noted a certain immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated March 31, 2004.

Internal Control Over Compliance

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

We noted a certain matter involving the internal control over compliance and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings as item 2003-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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



Betty Montgomery
Auditor of State

March 31, 2004

**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

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)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<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?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I CFDA #84.010; Comprehensive School Reform CFDA #84.332; and Nutrition Cluster CFDA #10.550, 10.553, 10.555
<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?	No

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

FINDING NUMBER 2003-001

Reportable Condition

Athletic Ticket Office

During testing of internal controls over District Athletic Ticket Office receipts, the following were noted:

- While the Ticket Office Supervisor maintained an inventory of high school athletic event tickets sold solely in the Ticket Office, no master inventory of athletic tickets was maintained to account for all student, general admission and reserve high school athletic tickets. Additionally, no monitoring controls were found to be in place to reconcile athletic tickets sold from one athletic event to the next.
- Documentation did not exist to monitor high school athletic season or presale tickets sold (e.g., reserve seating chart).
- Each respective gate's Ticket Taker prepares a summary of beginning and ending general admission ticket numbers, general admission and reserved seats sold and subsequent cash collected; however, this documentation was not maintained but rather summarized on a Ticket Revenue Summary Report (Report) prepared by the Ticket Office Supervisor.
- For Middle School athletic events, no system of accountability for athletic event admissions was utilized.
- Evidence did not exist to support athletic receipts recorded on the District's Revenue Account Information REVLED Report were reconciled to the Ticket Office records.

As a result, the risk of misappropriation of athletic revenue is increased.

To improve accountability and internal controls, we recommend:

- The Ticket Office Supervisor should maintain a master inventory of all student, general admission and reserve high school athletic tickets. Additionally, evidence should exist to support athletic tickets are reconciled from one athletic event to the next.
- Documentation should exist to support high school athletic season or presale tickets are monitored (e.g. seating chart).
- Each Ticket Taker summary of beginning and ending general admission ticket numbers, general admission and reserved seats sold and subsequent cash collected should be documented on a form approved by the Board of Education and subsequently maintained on file by the Ticket Office. Also, those summaries should document a reconciliation of cash collected to athletic tickets sold, and the resulting variances (e.g., overages or shortages) for each respective athletic event. In addition, those summaries should be signed and dated by the Ticket Taker and Athletic Director as evidence athletic tickets sold reconcile to monies deposited. Significant overages or shortages should be investigated by the Ticket Taker and Athletic Director with resolution documented on the summary.

FINDING NUMBER 2003-001 (Continued)

- Pre-numbered tickets should be utilized for all Middle School athletic events. A summary of beginning and ending ticket numbers sold should subsequently be completed, reconciled to monies deposited by the Ticket Taker and reviewed for accuracy by the Game Managers. The Game Managers should then submit those summaries to the Ticket Office for review and approval by the Athletic Director or designee.
- The Athletic Director should provide evidence, possibly monthly, that the District's Revenue Account Information REVLED Report reconciles to the Ticket Office's underlying documentation.

Implementing these recommendations will help increase accountability and reduce the risk of misappropriation of athletic revenue.

FINDING NUMBER 2003-002

Reportable Condition

Capital Assets

During the testing of Capital Assets, the following were noted:

- The District did not maintain an accurate and complete additions list for assets acquired during the audit period. During completeness testing for capital asset additions, approximately \$1.5 million in capital asset purchases were not booked by the District as fy2003 additions.
- The District did not maintain an accurate and complete deletions list for assets disposed of during the audit period. There were numerous assets auctioned off on E-Bay, however, the District had not removed the assets from its master capital asset listing. The District maintained a listing of items auctioned but the list did not contain the asset identification number. As a result, the District was unable to determine which assets should have been removed from the master capital asset listing.
- The District's Book Value Report for depreciation by asset was incorrectly calculating the accumulated depreciation for many of the District's assets. The errors appear to be related to the accumulated depreciation reported by Valuation Engineers in the inventory appraisal performed in March, 2002. There were several depreciable assets in the inventory appraisal that were reported with no accumulated depreciation despite the asset being in use for several years. As a result, the 6/30/02 Accumulated Depreciation was misstated by over \$860,000 and had to be restated.
- The District was unable to provide detail of the allocation of building depreciation by function. The District's system calculated the allocations for building depreciation; however, the methods used to determine the allocation were unable to be supported by the District.
- The District's June 30, 2003 textbook balances and accumulated depreciation was \$1,109,378 and \$654,771; however, the textbooks were fully depreciated. Consequently, accumulated depreciation was inaccurate. Additionally, while the District has purchased textbooks (values not significant) the District has not reflected subsequent additions or deletions.

FINDING NUMBER 2003-002 (Continued)

To improve accountability and reporting of capital assets:

- The District should more closely monitor all additions made during the fiscal year to ensure that they are recorded on the District's books at the correct acquisition date and at the correct amount.
- The District should more closely monitor all deletions made during the fiscal year to ensure that they are removed from the District's books at the correct disposal date and acquisition cost. The tag number for each asset disposed should be recorded to ensure that the proper assets are removed from the master capital asset listing.
- The District should contact it's A-site to determine the best method to correct the accumulated depreciation reported for depreciable assets.

The District should document the method used to allocate depreciation on its buildings and maintain documentation to support the information used.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2003-003
CFDA Title	Child Nutrition Cluster
CFDA Number	#10.550, 10.553, 10.555, 10.556, 10.559
Pass Through Entity Number/Year	N/A
Federal Oversight Agency	U.S. Department of Agriculture

Title 7 CFR Section and 245.6(a) provides that to qualify a child for meals/milk served free or at reduced price under the program(s), the child's family must submit an application to the District. The application must be approved and maintained on file with the District. In addition, by December 15 of each school year, a sample verification of the information supplied on the free and reduced price applications shall be performed by the appropriate District official. Sources of information for verification may include written evidence, collateral contracts, and systems of records. The information sources received should be evaluated and any eligibility changes shall be documented. If the verification activities fail to confirm a student's eligibility for free or reduced price benefits or should the household fail to cooperate with the verification efforts, the District shall initiate procedures to reduce or terminate benefits. Additionally, "Verification Guidance" provided by the Ohio Department of Education should be utilized to ensure the "Verification Summary Report" is completed, signed and maintained on file.

Finding Number	2003-003 (Continued)
CFDA Title	Child Nutrition Cluster
CFDA Number	#10.550, 10.553, 10.555
Pass Through Entity Number/Year	N/A
Federal Oversight Agency	U.S. Department of Agriculture

While each school maintained an income eligibility verification file and applications, the following were not completed in accordance with the verification guidelines:

- The March 31, 2003 exit report completed by Ohio Department of Education over the Food Service noted verification noncompliance and stated the District should follow through with changes in eligibility status due to the verification process on selected student applications and the verification process should be completed correctly with all income verified.
- The “Verification Summary Report” was not completed, signed, or maintained on file by the Food Service Supervisor as required in the “Verification Guidance”. Five out of twenty applications tested (25%) for all schools were not completed correctly by the Approving Official, although the eligibility determination was correct. The shaded sections of the free/reduced applications were not completely filled out and Longfellow Middle School incorrectly calculated monthly income from weekly, biweekly, and twice a month income, although it did not affect the eligibility determination in the test of all schools.
- In an additional test of twenty Longfellow Middle School student applications, we noted fourteen out of twenty applications tested (70%) for Longfellow Middle School were not completed correctly by the Approving Official (income incorrectly calculated), and the eligibility determination was incorrect for five out of twenty applications tested (25%) for Longfellow school. Of the five inaccurate determinations, two student applications approved as reduced and one student application approved as free should have been denied, and two student applications approved as free should have been reduced. It is not determinable how many free and reduced lunches may have been received by ineligible students or students whose eligibility should have been from free to reduced.

As a result, the District may have over/under reported students that were/were not eligible to receive free or reduced lunches.

The Food Service Supervisor should coordinate with the Building Principals or Behavior Coach to implement procedures to ensure the applications and application verifications are completed correctly. This will ensure the Food Service Director can properly monitor the verification process.

Finding Number	2003-004
CFDA Title	Child Nutrition Cluster
CFDA Number	#10.550, 10.553, 10.555
Pass Through Entity Number/Year	N/A
Federal Oversight Agency	U.S. Department of Agriculture

Child Nutrition Cluster

During testing of the Child Nutrition Cluster, the following weaknesses were noted:

- In lieu of determining eligibility based on information provided in an application from the household, SFAs may determine free benefit eligibility based on documentation obtained from the appropriate state or local agency responsible for the administration of the Food Stamp Program, Head Start, and/or the TANF Program. When direct certification is used to determine a child is a member of a Food Stamp, Head Start, and/or TANF household, the SFA must approve the child for free benefits without application from the household (7 CFR 245.6b). The District runs an EMIS Direct Certification Free and Reduced Lunch Program Comparison Report Sorted by Building/Name Report and the list is reviewed by the secretary at each respective school to see if any students can be “hand matched” for both identifiers (social security number and birthdate) as eligible for free meals using food stamp information. Once hand matched, District Personnel for each respective school sends the Direct Certification approval letter to inform the parent/guardian they need not complete a free/reduced lunch application and that the parent/guardian is responsible for reporting any changes in eligibility. A final direct certification listing report of hand matched students did not exist for each school.
- 100% of each respective District building’s daily class list of free, reduced, and paid students were not maintained.
- Daily cash register tapes and other daily support were missing for approximately 1.7% of days tested at Emerson Elementary School and approximately 5% of days tested at Smith Elementary School.
- Lunch daily cash register tapes were not maintained for approximately 1.7% of days tested at Gorrell Elementary School.
- Breakfast cash register tapes were not maintained for approximately 3.3% of days tested at Washington High School.
- From 5% to 100% of days tested at each respective District building, evidence did not exist to support daily cash register tapes were reconciled to daily cash collections deposits.
- For approximately 8% of days tested at Smith Elementary, daily breakfast receipts were incorrectly coded as ala carte receipts on the cash register.
- For 100% of days tested at Gorrell Elementary, ala carte receipts reported on the Daily Breakfast and Lunch Reports were not supported by underlying documentation.
- For 10% of the days tested at Smith Elementary, head counts on each respective cash register tape did not reconcile to head counts reflected on the Daily Breakfast and Lunch Reports.
- Evidence did not exist at Emerson Elementary (1.7% of days tested), Franklin Elementary (98% of days tested), Lorin Andrews Middle School (100% of days tested), and Smith Elementary (95% of days tested), to indicate breakfast head counts on the Daily Breakfast and Lunch Reports were reconciled to the Breakfast Program Tabulation Forms.

Finding Number	2003-004 (Continued)
CFDA Title	Child Nutrition Cluster
CFDA Number	#10.550, 10.553, 10.555
Pass Through Entity Number/Year	N/A
Federal Oversight Agency	U.S. Department of Agriculture

As a result, daily lunch and breakfast receipts could be misappropriated and the District could be over/under reimbursed for lunches and breakfasts served thus, future reimbursements may be jeopardized.

The District should perform the following:

- Each school should maintain a final direct certification listing report of hand matched students approved for free or reduced benefits.
- Each school should maintain daily class lists for all free, reduced and paid students.
- Cash register tapes, head counts on the cash register tapes and/or breakfast program tabulation forms, and ala carte receipt records of number and type of items/prices sold to students should be reconciled to monies collected/deposited and head counts on the Daily Breakfast and Lunch Report prepared by the Head Cooks at the respective schools. The Head Cook should initial and date each Daily Breakfast and Lunch Report as evidence this reconciliation was performed and each respective cashier should initial and date the cash register tape as evidence this reconciliation was performed. Unreconciled differences should be identified, investigated and properly documented by the respective Cashier and Head Cook.
- All daily cash register tapes, daily class lists, and other daily support should be maintained by the Head Cooks at each school.
- Items entered on each cash register should be entered consistently under the correct keys.

This will help improve operational efficiencies, internal controls, and reliability of recorded collections and lunches and breakfast served and subsequently remitted for reimbursement.



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MASSILLON CITY SCHOOL DISTRICT

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 11, 2004**