



**Auditor of State
Betty Montgomery**

**CITY OF MASSILLON
STARK COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Honorable Mayor and City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Massillon, Stark County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Massillon, Stark County, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

November 22, 2005

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

The discussion and analysis of the City of Massillon's (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- The total net assets of the City increased \$2,779,699. Net assets of governmental activities increased \$1,782,381, which represents a 15.3% increase over fiscal year 2003. Net assets of business-type activities increased \$997,318 or 18.7% from fiscal year 2003.
- General revenues accounted for \$17,236,613 or 70.3% of total governmental activities revenue. Program specific revenues accounted for \$7,283,155 or 29.7% of total governmental activities revenue.
- Governmental activities net capital assets increased \$1,195,720, primarily due to construction in progress to the City's infrastructure.
- The City had \$5,503,853 and \$9,195,213 in expenses related to general governmental activities and security of persons and property, respectively. \$2,232,713 of these expenses was offset by program specific charges for services, grants, contributions, or interest. General revenues (primarily taxes) of \$17,236,613 were adequate to provide for these programs.
- The general fund, the City's largest major fund, had revenues of \$15,259,333 in 2004, or 64.3% of total governmental funds. Expenditures of the general fund were \$13,918,024, or 43.3% of total governmental funds. The general fund balance increased \$386,861 in 2004, or 23.9%, over 2003.

Using this Annual Financial Report

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

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

Reporting the City as a Whole

Statement of Net Assets and Statement of Activities

While this document contains a number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and helps to answer the question, "How did we do financially during 2004?" These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, whether the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions and other factors.

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

City of Massillon, Ohio
Management's Discussion and Analysis
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Unaudited

Governmental Funds

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

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

Proprietary Funds

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

Fiduciary Funds

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 26-53 of this report.

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

Government-Wide Financial Analysis

The statement of net assets provides the perspective of the City as a whole. Table 1 below provides a summary of the City's net assets for 2004 compared to 2003:

Table 1
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<u>Assets:</u>						
Current and other assets	\$ 15,979,676	\$ 15,776,116	\$ 5,911,682	\$ 5,720,821	\$ 21,891,358	\$ 21,496,937
Capital assets	<u>27,596,816</u>	<u>26,401,096</u>	<u>48,886,133</u>	<u>45,281,913</u>	<u>76,482,949</u>	<u>71,683,009</u>
Total assets	<u>43,576,492</u>	<u>42,177,212</u>	<u>54,797,815</u>	<u>51,002,734</u>	<u>98,374,307</u>	<u>93,179,946</u>
<u>Liabilities:</u>						
Other liabilities	3,024,625	3,437,789	369,351	502,617	3,393,976	3,940,406
Long-term liabilities outstanding	<u>27,078,975</u>	<u>27,048,912</u>	<u>48,106,507</u>	<u>45,175,478</u>	<u>75,185,482</u>	<u>72,224,390</u>
Total liabilities	<u>30,103,600</u>	<u>30,486,701</u>	<u>48,475,858</u>	<u>45,678,095</u>	<u>78,579,458</u>	<u>76,164,796</u>
<u>Net assets:</u>						
Invested in capital assets, net of related debt	4,572,825	3,006,876	7,057,935	249,892	11,630,760	3,256,768
Restricted	6,956,675	7,159,519	-	-	6,956,675	7,159,519
Unrestricted	<u>1,943,392</u>	<u>1,524,116</u>	<u>(735,978)</u>	<u>5,074,747</u>	<u>1,207,414</u>	<u>6,598,863</u>
Total net assets	<u>\$ 13,472,892</u>	<u>\$ 11,690,511</u>	<u>\$ 6,321,957</u>	<u>\$ 5,324,639</u>	<u>\$ 19,794,849</u>	<u>\$ 17,015,150</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2004, the City's assets exceeded liabilities by \$19,794,849. This amounts to \$13,472,892 in governmental activities and \$6,321,957 in business-type activities. Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 77.7% of total governmental and business-type assets. Capital assets include land, land improvements, buildings, vehicles, machinery and equipment, construction in progress and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2004, were \$11,630,760. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$6,956,675 or 35.1%, represent resources that are subject to external restrictions on how they may be used. Of the total restricted net assets, \$1,168,893 and \$2,072,992 and \$3,714,790 are restricted for capital projects, debt service and other purposes respectively. \$1,207,414 of the government-wide unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

City of Massillon, Ohio
Management's Discussion and Analysis
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Table 2 below shows the changes in net assets for fiscal year 2004 compared to 2003.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 3,208,239	\$ 3,475,898	\$ 8,226,998	\$ 7,554,196	\$ 11,435,237	\$ 11,030,094
Operating grants, contributions, and interest	2,941,960	1,758,331	5,915	4,683	2,947,875	1,763,014
Capital grants and contributions	1,132,956	2,169,861	-	-	1,132,956	2,169,861
General revenues:						
Property and other taxes	1,847,965	1,291,588	-	-	1,847,965	1,291,588
Municipal income taxes	12,505,438	11,804,315	-	-	12,505,438	11,804,315
Grants and entitlements	1,719,731	2,590,280	-	-	1,719,731	2,590,280
Investment earnings	479,176	376,842	-	-	479,176	376,842
Miscellaneous	684,303	546,291	258,485	131,490	942,788	677,781
Total revenues	<u>24,519,768</u>	<u>24,013,406</u>	<u>8,491,398</u>	<u>7,690,369</u>	<u>33,011,166</u>	<u>31,703,775</u>
Program Expenses						
Governmental Activities:						
General government	5,503,853	5,945,709	-	-	5,503,853	5,945,709
Security of persons and property	9,195,213	8,791,482	-	-	9,195,213	8,791,482
Public health and welfare	675,333	717,764	-	-	675,333	717,764
Basic utility services	25,383	39,138	-	-	25,383	39,138
Leisure time activities	2,608,099	3,050,008	-	-	2,608,099	3,050,008
Economic development and assistance	918,833	1,128,945	-	-	918,833	1,128,945
Transportation	2,096,646	2,189,465	-	-	2,096,646	2,189,465
Urban redevelopment and housing	173,258	287,967	-	-	173,258	287,967
Other	540,653	406,813	-	-	540,653	406,813
Interest and fiscal charges	1,000,116	1,102,469	-	-	1,000,116	1,102,469
Business-type Activities:						
Wastewater	-	-	5,266,862	6,013,082	5,266,862	6,013,082
Solid waste	-	-	964,010	988,264	964,010	988,264
Golf course	-	-	1,263,208	1,336,525	1,263,208	1,336,525
Total program expenses	<u>22,737,387</u>	<u>23,659,760</u>	<u>7,494,080</u>	<u>8,337,871</u>	<u>30,231,467</u>	<u>31,997,631</u>
Change in net assets	<u>\$ 1,782,381</u>	<u>\$ 353,646</u>	<u>\$ 997,318</u>	<u>\$ (647,502)</u>	<u>\$ 2,779,699</u>	<u>\$ (293,856)</u>

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2004
Unaudited

Governmental Activities

Governmental activities net assets increased \$1,782,381 in 2004. The funding for governmental activities comes from several different sources, with municipal income tax being the largest contributor. Income tax revenues increased by \$701,123 or 5.9% which is reflective of the local economy. The City's governmental expenses decreased \$922,373 or 3.9%.

Security of persons and property, which primarily supports the operations of the City's police, fire and emergency medical services, accounted for \$9,195,213 of expenses, or 40.4% of total governmental expenses of the City. These expenses were funded by \$1,852,943 in charges to users of services and operating and capital grants. General government expenses, which primarily include legislative, executive and financial management, totaled \$5,503,853 or 24.2% of total governmental expenses. General government expenses were covered by \$379,770 of direct charges to users, grants and entitlements, contributions and interest.

Overall, the State and Federal government contributed to the City's governmental revenues with \$5,794,647 in grants, entitlements and contributions, including interest earned on these resources. Of these revenues \$4,074,916, or 70.3%, are restricted to a particular program or purpose.

General revenues totaled \$17,236,613, and amounted to 70.3% of total revenues. These revenues primarily consist of property and income tax revenue of \$14,353,403, or 83.3% of total general revenues. The other primary source of general revenues is grants and entitlements not restricted to specific programs, with local government, local government revenue assistance and estate taxes making up a majority of the \$1,719,731, or 10.0%, of the total general revenues.

Business-Type Activities

The wastewater, solid waste, and golf course funds are the City's enterprise funds. These programs had program revenues of \$8,232,913 and expenses of \$7,494,080 for fiscal year 2004. Business-type activities reported a change in net assets of \$997,318 which was an increase of 18.7% from 2003. This increase was possible with the reduction of personal and contractual services needed for operations and an increase in certain user fees.

Program Expenses

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

City of Massillon, Ohio
Management's Discussion and Analysis
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Table 3
Program Expenses

	<u>2004</u>		<u>2003</u>		<u>Net Change</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Governmental Activities:						
General government	\$ 5,503,853	\$ (5,124,083)	\$ 5,945,709	\$ (3,985,418)	\$ (441,856)	\$ (1,138,665)
Security of persons and property	9,195,213	(7,342,270)	8,791,482	(8,328,100)	403,731	985,830
Public health and welfare	675,333	(437,614)	717,764	29,001	(42,431)	(466,615)
Basic utility services	25,383	(383)	39,138	(138)	(13,755)	(245)
Leisure time activities	2,608,099	(1,654,268)	3,050,008	(1,994,410)	(441,909)	340,142
Economic development and assistance	918,833	(6,808)	1,128,945	(998,195)	(210,112)	991,387
Transportation	2,096,646	553,177	2,189,465	368,926	(92,819)	184,251
Urban redevelopment and housing	173,258	33,488	287,967	(262,690)	(114,709)	296,178
Other	540,653	(475,355)	406,813	(87,181)	133,840	(388,174)
Interest and fiscal charges	1,000,116	(1,000,116)	1,102,469	(997,465)	(102,353)	(2,651)
Business-type Activities:						
Wastewater treatment	5,266,862	960,573	6,013,082	(521,942)	(746,220)	1,482,515
Solid waste	964,010	25,445	988,264	319	(24,254)	25,126
Golf course	1,263,208	(247,185)	1,336,525	(257,369)	(73,317)	10,184
Total expenses	\$ 30,231,467	\$ (14,715,399)	\$ 31,997,631	\$ (17,034,662)	\$ (1,766,164)	\$ 2,319,263

The dependence upon general revenues for governmental activities is apparent, with 68.0% of expenses supported through taxes and other general revenues.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The general fund is the operating fund of the City. At the end of the fiscal year, the fund balance of the general fund was \$2,003,144, a 23.9% increase from prior year. The primary reason for the increase of the general fund balance in 2004 was attributed to an increase in municipal income taxes received as the economy began to show improvement during the year. The fund balance of the Lincoln Center bond retirement debt service fund reported a decrease of \$88,702, or 99.9% in 2004. This decrease was caused primarily from the rollover of bond anticipation notes. See Note 13 to the basic financial statements for a more detailed explanation of this retirement.

Budgeting Highlights - General Fund

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

City of Massillon, Ohio
Management's Discussion and Analysis
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The most significant budgeted governmental fund is the general fund. The most significant variance between revenue and final budgeted revenue amounts was to municipal income tax revenue. Actual amounts exceeded the final budgeted amounts by \$186,464.

Final budgeted expenditures increased \$432,427 or 3.1% over the original budgeted amounts. This increase was primarily caused by conservative budgeting procedures when determining the original budget with the estimated resources that are anticipated to be available.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the City had \$76,482,949 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings, vehicles, machinery and equipment, and infrastructure. Of this total, \$27,596,816 was reported in governmental activities and \$48,886,133 was reported in business-type activities. Table 4 below reports fiscal year 2004 balances compared to 2003:

	Governmental Activities		Business-Type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 8,062,633	\$ 8,054,603	\$ 3,052,637	\$ 3,052,637	\$ 11,115,270	\$ 11,107,240
Construction in progress	2,635,191	2,858,830	35,677,263	32,182,434	38,312,454	35,041,264
Land improvements	2,663,399	2,737,171	1,051,407	1,163,548	3,714,806	3,900,719
Buildings	10,281,120	10,062,282	3,260,726	3,458,388	13,541,846	13,520,670
Vehicles	956,239	1,028,138	312,833	221,471	1,269,072	1,249,609
Machinery and equipment	1,307,361	1,190,922	733,204	882,125	2,040,565	2,073,047
Infrastructure	<u>1,690,873</u>	<u>469,150</u>	<u>4,798,063</u>	<u>4,321,310</u>	<u>6,488,936</u>	<u>4,790,460</u>
Total	<u>\$ 27,596,816</u>	<u>\$ 26,401,096</u>	<u>\$ 48,886,133</u>	<u>\$ 45,281,913</u>	<u>\$ 76,482,949</u>	<u>\$ 71,683,009</u>

The most significant change in fiscal year 2004 to the total amount of capital assets was to infrastructure for governmental activities and to construction in progress for business-type activities. For governmental activities, the increase was primarily due to the City electing to "phase in" the retroactive reporting of infrastructure assets. For business-type activities, the most significant increase was due from the continued upgrades to the City's wastewater treatment service. See Note 8 to the basic financial statements for detail on governmental and business-type activities capital assets.

City of Massillon, Ohio
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Debt Administration

At December 31, 2004 the City had total long-term obligations outstanding of \$75,185,482. Of this total, \$4,454,012 is due within one year and \$70,731,470 is due in more than one year. Table 5 below summarizes the bonds and loans outstanding:

Table 5
Outstanding Debt, at Fiscal Year End

	Governmental Activities		Business-Type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
General obligation bonds	\$ 17,722,700	\$ 16,330,000	\$ 7,800,591	\$ 7,966,233	\$ 25,523,291	\$ 24,296,233
Unamortized items	-	-	(260,835)	(297,922)	(260,835)	(297,922)
Bond anticipation notes	2,993,000	4,690,000	-	-	2,993,000	4,690,000
Special obligation debt	-	42,684	14,069	61,184	14,069	103,868
Loans payable	2,080,000	2,125,000	39,648,362	36,516,628	41,728,362	38,641,628
Special assessment bonds	<u>39,000</u>	<u>73,000</u>	<u>-</u>	<u>-</u>	<u>39,000</u>	<u>73,000</u>
Total	<u>\$ 22,834,700</u>	<u>\$ 23,260,684</u>	<u>\$ 47,202,187</u>	<u>\$ 44,246,123</u>	<u>\$ 70,036,887</u>	<u>\$ 67,506,807</u>

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

At December 31, 2004 the City's overall legal debt margin was \$11,303,997 with an unvoted debt margin of \$5,121,599. The City's credit rating remained unchanged in 2004 as compared to 2003. See Note 13 to the basic financial statements for details on the City's long-term obligations.

Current Issues Affecting Financial Condition

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

In fiscal year 2005, the City will continue to upgrade the wastewater treatment plant operations and various infrastructure improvements. Current outstanding contracts for these projects total \$4,484,121. See Note 11 of the basic financial statements for details on the City's major contractual commitments.

Contacting the City's Financial Management

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

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City of Massillon, Ohio
Statement of Net Assets
December 31, 2004

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 4,493,036	\$ 4,097,464	\$ 8,590,500
Cash and cash equivalents:			
In segregated accounts	140	-	140
Receivables:			
Property and other taxes	2,020,520	-	2,020,520
Income tax	2,852,385	-	2,852,385
Accounts	686,873	1,725,371	2,412,244
Due from other governments	1,570,152	-	1,570,152
Special assessments	135,576	-	135,576
Accrued interest	566,651	-	566,651
Internal balances	90,000	(90,000)	-
Prepaid items	9,054	-	9,054
Materials and supplies inventory	111,204	49,947	161,151
Loans receivable	22,847	-	22,847
Notes receivable	3,421,238	-	3,421,238
Deferred charges	-	128,900	128,900
Nondepreciable capital assets	10,697,824	38,729,900	49,427,724
Depreciable capital assets, net	16,898,992	10,156,233	27,055,225
Total assets	43,576,492	54,797,815	98,374,307
<u>Liabilities:</u>			
Accounts payable	302,313	203,253	505,566
Accrued wages and benefits	189,549	42,652	232,201
Due to other governments	769,432	97,268	866,700
Deferred revenue	1,614,305	-	1,614,305
Accrued interest payable	146,157	26,178	172,335
Claims payable	2,869	-	2,869
Long-term liabilities:			
Due within one year	3,770,489	683,523	4,454,012
Due in more than one year	23,308,486	47,422,984	70,731,470
Total liabilities	30,103,600	48,475,858	78,579,458
<u>Net assets:</u>			
Invested in capital assets, net of related debt	4,572,825	7,057,935	11,630,760
Restricted for:			
Capital projects	1,168,893	-	1,168,893
Debt service	2,072,992	-	2,072,992
Other purposes	3,714,790	-	3,714,790
Unrestricted	1,943,392	(735,978)	1,207,414
Total net assets	\$ 13,472,892	\$ 6,321,957	\$ 19,794,849

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Activities
For the Year Ended December 31, 2004

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and sales</u>	<u>Operating Grants, Contributions and Interest</u>	<u>Capital Grants and Contributions</u>
<u>Governmental Activities:</u>				
General government	\$ 5,503,853	\$ 321,648	\$ 58,122	\$ -
Security of persons and property	9,195,213	1,756,282	96,661	-
Public health and welfare	675,333	106,893	130,826	-
Basic utility services	25,383	-	25,000	-
Leisure time activities	2,608,099	687,887	190,895	75,049
Economic development and assistance	918,833	-	912,025	-
Transportation	2,096,646	330,812	1,297,617	1,021,394
Urban redevelopment and housing	173,258	-	206,746	-
Other	540,653	4,717	24,068	36,513
Interest and fiscal charges	1,000,116	-	-	-
Total governmental activities	<u>22,737,387</u>	<u>3,208,239</u>	<u>2,941,960</u>	<u>1,132,956</u>
<u>Business-Type Activities:</u>				
Wastewater treatment	5,266,862	6,227,435	-	-
Solid waste	964,010	983,540	5,915	-
Golf course	1,263,208	1,016,023	-	-
Total business-type activities	<u>7,494,080</u>	<u>8,226,998</u>	<u>5,915</u>	<u>-</u>
Total primary government	<u>\$ 30,231,467</u>	<u>\$ 11,435,237</u>	<u>\$ 2,947,875</u>	<u>\$ 1,132,956</u>

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

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

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (5,124,083)	\$ -	\$ (5,124,083)
(7,342,270)	-	(7,342,270)
(437,614)	-	(437,614)
(383)	-	(383)
(1,654,268)	-	(1,654,268)
(6,808)	-	(6,808)
553,177	-	553,177
33,488	-	33,488
(475,355)	-	(475,355)
<u>(1,000,116)</u>	<u>-</u>	<u>(1,000,116)</u>
<u>(15,454,232)</u>	<u>-</u>	<u>(15,454,232)</u>
-	960,573	960,573
-	25,445	25,445
-	<u>(247,185)</u>	<u>(247,185)</u>
-	<u>738,833</u>	<u>738,833</u>
<u>\$ (15,454,232)</u>	<u>\$ 738,833</u>	<u>\$ (14,715,399)</u>
1,414,226	-	1,414,226
284,971	-	284,971
148,768	-	148,768
10,267,597	-	10,267,597
261,978	-	261,978
1,975,863	-	1,975,863
1,719,731	-	1,719,731
479,176	-	479,176
684,303	258,485	942,788
<u>17,236,613</u>	<u>258,485</u>	<u>17,495,098</u>
1,782,381	997,318	2,779,699
11,690,511	5,324,639	17,015,150
<u>\$ 13,472,892</u>	<u>\$ 6,321,957</u>	<u>\$ 19,794,849</u>

City of Massillon, Ohio
Balance Sheet
Governmental Funds
December 31, 2004

	General	Lincoln Center Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 540,153	\$ 98	\$ 3,733,864	\$ 4,274,115
Cash and cash equivalents:				
In segregated accounts	-	-	140	140
Receivables:				
Property and other taxes	1,557,579	-	462,941	2,020,520
Income taxes	2,257,990	-	594,395	2,852,385
Accounts	138,055	-	543,555	681,610
Due from other governments	913,816	-	656,336	1,570,152
Special assessments	-	-	135,576	135,576
Accrued interest	13,467	-	553,184	566,651
Interfund	70,000	-	20,000	90,000
Prepaid items	9,054	-	-	9,054
Materials and supplies inventory	99,686	-	11,518	111,204
Loans receivable	-	-	22,847	22,847
Notes receivable	-	-	3,421,238	3,421,238
Total assets	\$ 5,599,800	\$ 98	\$ 10,155,594	\$ 15,755,492
Liabilities:				
Accounts payable	\$ 103,116	\$ -	\$ 199,197	\$ 302,313
Accrued wages and benefits	153,103	-	36,446	189,549
Due to other governments	374,124	-	395,308	769,432
Deferred revenue	2,966,313	-	2,311,935	5,278,248
Total liabilities	3,596,656	-	2,942,886	6,539,542
Fund Balances:				
Reserved for encumbrances	105,529	-	933,719	1,039,248
Reserved for loans receivable	-	-	22,847	22,847
Reserved for debt service principal	-	98	679,708	679,806
Reserved for notes receivable	-	-	3,421,238	3,421,238
Unreserved:				
Undesignated, reported in:				
General fund	1,897,615	-	-	1,897,615
Special revenue funds	-	-	1,505,473	1,505,473
Capital projects funds	-	-	649,723	649,723
Total fund balances	2,003,144	98	7,212,708	9,215,950
Total liabilities and fund balances	\$ 5,599,800	\$ 98	\$ 10,155,594	\$ 15,755,492

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2004

Total governmental fund balances \$ 9,215,950

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 27,596,816

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

Property and other taxes	\$	249,506	
Municipal income taxes		1,262,782	
Investment income		553,184	
Intergovernmental		911,974	
Special assessments		135,577	
Charges for services		550,920	
Total			3,663,943

Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds (146,157)

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 221,315

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

General obligation bonds	\$	(17,714,999)	
Accretion on capital appreciation bonds		(7,701)	
Bond anticipation notes		(2,993,000)	
Special assessment bonds		(39,000)	
Loans payable		(2,080,000)	
Capital leases payable		(189,291)	
Compensated absences		(4,054,984)	
Total			(27,078,975)

Net assets of governmental activities \$ 13,472,892

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Lincoln Center Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property other taxes	\$ 1,408,359	\$ -	\$ 428,646	\$ 1,837,005
Municipal income taxes	9,932,727	-	2,149,716	12,082,443
Charges for services	364,249	-	728,714	1,092,963
Licenses and permits	329,544	-	110,929	440,473
Fines and forfeitures	1,117,841	-	552,629	1,670,470
Intergovernmental	1,795,655	-	3,897,762	5,693,417
Special assessments	-	-	36,513	36,513
Investment income	101,191	-	104,924	206,115
Other	209,767	-	459,848	669,615
Total revenues	15,259,333	-	8,469,681	23,729,014
Expenditures:				
Current:				
General government	5,037,784	-	200,184	5,237,968
Security of persons and property	7,318,688	-	1,737,727	9,056,415
Public health and welfare	500,301	-	219,785	720,086
Basic utility services	-	-	25,383	25,383
Leisure time activities	-	-	2,183,268	2,183,268
Economic development and assistance	-	-	918,209	918,209
Transportation	646,339	-	1,244,477	1,890,816
Urban redevelopment and housing	-	-	173,258	173,258
Other	372,372	40,546	110,196	523,114
Capital outlay	5,561	-	2,090,372	2,095,933
Debt service:				
Principal retirement	30,535	6,097,000	2,120,126	8,247,661
Interest and fiscal charges	6,444	124,926	914,241	1,045,611
Total expenditures	13,918,024	6,262,472	11,937,226	32,117,722
Excess of revenues over (under) expenditures	1,341,309	(6,262,472)	(3,467,545)	(8,388,708)
Other financing sources (uses):				
Proceeds from sale of capital assets	-	18,282	1,964	20,246
Inception of capital lease	-	-	144,732	144,732
Proceeds from sale of notes	-	5,950,000	-	5,950,000
Proceeds from sale of bonds	-	-	1,774,999	1,774,999
Transfers in	-	205,488	832,624	1,038,112
Transfers out	(954,448)	-	(83,664)	(1,038,112)
Total other financing sources (uses)	(954,448)	6,173,770	2,670,655	7,889,977
Net change in fund balances	386,861	(88,702)	(796,890)	(498,731)
Fund balances at beginning of year	1,616,283	88,800	8,009,598	9,714,681
Fund balances at end of year	\$ 2,003,144	\$ 98	\$ 7,212,708	\$ 9,215,950

See accompanying notes to the basic financial statements.

City of Massillon, Ohio

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2004

Net change in fund balances - Total governmental funds \$ (498,731)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Net capital asset additions	\$	2,087,361	
Depreciation expense		<u>(891,641)</u>	
Excess of net capital asset additions over depreciation expense			1,195,720

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

Property and other taxes	\$	10,963	
Municipal income taxes		422,993	
Investment income		273,061	
Intergovernmental revenue		60,610	
Special assessments		(27,258)	
Miscellaneous		<u>32,103</u>	
Net change in deferred revenues during the year			772,472

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 8,247,661

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

Increase in compensated absences	\$	(108,059)	
Interest accreted on capital appreciation debt		(7,701)	
Decrease in accrued interest		<u>53,196</u>	
Total additional expenditures			(62,564)

The internal service fund used by management to charge the costs of medical, prescription drug, dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. (2,446)

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

Proceeds from the sale of notes	\$	(5,950,000)	
Proceeds from the sale of bonds		<u>(1,774,999)</u>	
			(7,724,999)

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. (144,732)

Change in net assets of governmental activities \$ 1,782,381

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Property and other taxes	\$ 1,370,695	\$ 1,362,989	\$ 1,354,657	\$ (8,332)
Municipal income taxes	10,000,000	9,619,400	9,805,864	186,464
Charges for services	371,125	350,291	350,164	(127)
Licenses and permits	359,162	339,000	334,170	(4,830)
Fines and forfeitures	1,146,533	1,082,171	1,125,339	43,168
Intergovernmental	1,858,990	1,824,233	1,799,115	(25,118)
Investment income	95,700	95,700	88,111	(7,589)
Other	215,391	203,300	208,311	5,011
Total revenues	15,417,596	14,877,084	15,065,731	188,647
<u>Expenditures:</u>				
Current:				
General government	5,256,468	5,418,734	5,375,002	43,732
Security of persons and property	7,326,071	7,552,224	7,575,938	(23,714)
Public health and welfare	508,047	523,730	522,445	1,285
Transportation	652,593	672,738	671,979	759
Other	235,214	242,475	235,637	6,838
Capital outlay	29,778	30,697	36,025	(5,328)
Total expenditures	14,008,171	14,440,598	14,417,026	23,572
Excess of revenues over expenditures	1,409,425	436,486	648,705	212,219
<u>Other financing sources (uses):</u>				
Advances in	5,000	5,000	5,000	-
Transfers out	(925,932)	(954,515)	(954,448)	67
Total other financing sources (uses)	(920,932)	(949,515)	(949,448)	67
Net change in fund balances	488,493	(513,029)	(300,743)	212,286
Fund balances at beginning of year	475,438	475,438	475,438	-
Prior year encumbrances appropriated	108,278	108,278	108,278	-
Fund balances at end of year	\$ 1,072,209	\$ 70,687	\$ 282,973	\$ 212,286

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2004

	Business-Type Activities				Governmental Activities - Internal Service Fund
	Wastewater	Golf Course	Solid Waste	Total	
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 3,488,811	\$ 161,718	\$ 446,935	\$ 4,097,464	\$ 218,921
Receivables:					
Accounts	1,700,853	1,963	22,555	1,725,371	5,263
Materials and supplies inventory	5,451	44,496	-	49,947	-
Deferred charges	-	128,900	-	128,900	-
Total current assets	5,195,115	337,077	469,490	6,001,682	224,184
Non-current assets:					
Capital assets:					
Land	59,400	2,993,237	-	3,052,637	-
Construction in progress	35,677,263	-	-	35,677,263	-
Depreciable capital assets, net	7,830,153	2,130,915	195,165	10,156,233	-
Total non-current assets	43,566,816	5,124,152	195,165	48,886,133	-
Total assets	48,761,931	5,461,229	664,655	54,887,815	224,184
Liabilities:					
Current liabilities:					
Accounts payable	145,179	4,059	54,015	203,253	-
Accrued wages and benefits	30,609	2,942	9,101	42,652	-
Compensated absences payable	18,577	-	32,968	51,545	-
Due to other governments	64,871	11,840	20,557	97,268	-
Interfund payable	-	90,000	-	90,000	-
Accrued interest payable	1,332	24,846	-	26,178	-
Claims payable	-	-	-	-	2,869
Capital leases payable	99,346	1,928	-	101,274	-
General obligation bonds payable	150,000	65,000	-	215,000	-
OWDA loans payable	315,704	-	-	315,704	-
Total current liabilities	825,618	200,615	116,641	1,142,874	2,869
Long-term liabilities:					
Compensated absences payable	329,063	66,261	113,305	508,629	-
Unamortized discount on bonds	-	(61,989)	-	(61,989)	-
Unamortized cost of refunding	-	(198,846)	-	(198,846)	-
Special obligation payable	-	14,069	-	14,069	-
Capital leases payable, net of current portion	242,872	-	-	242,872	-
OWDA loans payable, net of current portion	39,332,658	-	-	39,332,658	-
General obligation bonds payable, net of current portion	475,000	7,110,591	-	7,585,591	-
Total long-term liabilities	40,379,593	6,930,086	113,305	47,422,984	-
Total liabilities	41,205,211	7,130,701	229,946	48,565,858	2,869
Net assets:					
Invested in capital assets, net of related debt	8,930,206	(2,067,436)	195,165	7,057,935	-
Unrestricted	(1,373,486)	397,964	239,544	(735,978)	221,315
Total net assets	\$ 7,556,720	\$ (1,669,472)	\$ 434,709	\$ 6,321,957	\$ 221,315

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2004

	Business-Type Activities			Total	Governmental Activities - Internal Service Fund
	Wastewater	Golf Course	Solid Waste		
<u>Operating revenues:</u>					
Charges for services	\$ 6,227,435	\$ 1,016,023	\$ 983,540	\$ 8,226,998	\$ 33,375
Other	104,598	144,916	8,971	258,485	628
Total operating revenue	<u>6,332,033</u>	<u>1,160,939</u>	<u>992,511</u>	<u>8,485,483</u>	<u>34,003</u>
<u>Operating expenses:</u>					
Personal services	1,573,184	308,746	517,293	2,399,223	-
Fringe benefits	529,571	78,502	153,621	761,694	-
Contractual services	1,812,894	153,713	156,936	2,123,543	3,529
Supplies and materials	479,191	147,189	94,532	720,912	-
Claims	-	-	-	-	32,920
Other operating costs	26	-	576	602	-
Depreciation	526,942	181,393	41,052	749,387	-
Total operating expenses	<u>4,921,808</u>	<u>869,543</u>	<u>964,010</u>	<u>6,755,361</u>	<u>36,449</u>
Operating income (loss)	<u>1,410,225</u>	<u>291,396</u>	<u>28,501</u>	<u>1,730,122</u>	<u>(2,446)</u>
<u>Non-operating revenues (expenses):</u>					
Intergovernmental	-	-	5,915	5,915	-
Interest and fiscal charges	(345,054)	(393,665)	-	(738,719)	-
Total non-operating revenues (expenses):	<u>(345,054)</u>	<u>(393,665)</u>	<u>5,915</u>	<u>(732,804)</u>	<u>-</u>
Change in net assets	1,065,171	(102,269)	34,416	997,318	(2,446)
Net assets at beginning of year	<u>6,491,549</u>	<u>(1,567,203)</u>	<u>400,293</u>	<u>5,324,639</u>	<u>223,761</u>
Net assets at end of year	<u>\$ 7,556,720</u>	<u>\$ (1,669,472)</u>	<u>\$ 434,709</u>	<u>\$ 6,321,957</u>	<u>\$ 221,315</u>

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004

	Business-Type Activities				Governmental
	Wastewater	Golf Course	Solid Waste	Total	Activities - Internal Service Fund
Cash flows from operating activities:					
Cash received from customers	\$ 6,043,653	\$ 1,016,023	\$ 971,193	\$ 8,030,869	\$ 33,073
Cash received from other operating sources	104,598	144,796	9,527	258,921	628
Cash payments for employee services and benefits	(2,038,338)	(382,389)	(682,292)	(3,103,019)	-
Cash payments to suppliers for goods and services	(2,364,566)	(326,240)	(200,740)	(2,891,546)	(37,198)
Net cash provided by (used for) operating activities	1,745,347	452,190	97,688	2,295,225	(3,497)
Cash flows from noncapital financing activities:					
Advances to other funds	-	(70,000)	-	(70,000)	-
Advances from other funds	-	60,000	-	60,000	-
Operating grants	-	-	5,915	5,915	-
Net cash provided by (used for) noncapital financing activities	-	(10,000)	5,915	(4,085)	-
Cash flows from capital and related financing activities:					
Proceeds of loans	4,369,817	-	-	4,369,817	-
Principal payments on notes and bonds	(150,000)	(70,000)	-	(220,000)	-
Interest payments on notes and bonds	(18,233)	(293,730)	-	(311,963)	-
Principal payments on capital leases	(95,664)	(48,166)	-	(143,830)	-
Principal payment on loans	(1,238,083)	(47,115)	-	(1,285,198)	-
Interest payments on loans	(327,037)	-	-	(327,037)	-
Acquisition of capital assets	(4,199,471)	-	(154,137)	(4,353,608)	-
Net cash provided by (used for) capital and related financing activities	(1,658,671)	(459,011)	(154,137)	(2,271,819)	-
Net increase (decrease) in cash and cash equivalents	86,676	(16,821)	(50,534)	19,321	(3,497)
Cash and cash equivalents at beginning of year	3,402,135	178,539	497,469	4,078,143	222,418
Cash and cash equivalents at end of year	\$ 3,488,811	\$ 161,718	\$ 446,935	\$ 4,097,464	\$ 218,921
Reconciliation of operating income to net cash provided by (used for) operating activities:					
Operating income	\$ 1,410,225	\$ 291,396	\$ 28,501	\$ 1,730,122	\$ (2,446)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:					
Depreciation	526,942	181,393	41,052	749,387	-
Change in assets and liabilities:					
(Increase) decrease in assets:					
Accounts receivable	(445,421)	(120)	(11,792)	(457,333)	(302)
Due from other governments	261,639	-	-	261,639	-
Materials and supplies inventory	1,694	(34,152)	-	(32,458)	-
Prepaid items	42,217	9,783	6,021	58,021	-
Increase (decrease) in liabilities:					
Accounts payable	(117,083)	(184)	45,283	(71,984)	-
Accrued wages	(35,088)	(4,417)	(21,729)	(61,234)	-
Compensated absences	96,075	10,275	12,445	118,795	-
Due to other governments	4,147	(1,784)	(2,093)	270	-
Claims payable	-	-	-	-	(749)
Net cash provided by (used for) operating activities	\$ 1,745,347	\$ 452,190	\$ 97,688	\$ 2,295,225	\$ (3,497)

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2004

	Private Purpose Trust	Agency
<u>Assets:</u>		
Assets:		
Equity in pooled cash and cash equivalents	\$ 36,495	\$ 41,642
Cash and cash equivalents:		
In segregated accounts	-	133,847
Receivables:		
Property and other taxes	-	422,364
Due from other governments	-	19,567
Total assets	<u>\$ 36,495</u>	<u>\$ 617,420</u>
<u>Liabilities:</u>		
Deposits held and due to others	36,495	-
Due to other governments	-	577,156
Undistributed monies	-	40,264
Total liabilities	<u>\$ 36,495</u>	<u>\$ 617,420</u>
<u>Net assets:</u>		
Held in trust for other purposes	<u>\$ -</u>	

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2004

	<u>Private Purpose Trust</u>
<u>Additions:</u>	
Receipt of unclaimed money	<u>\$ 1,953</u>
<u>Deductions:</u>	
Claimed money	<u>147</u>
Change in net assets	1,806
Net assets at beginning of year	<u>34,689</u>
Net assets at end of year	<u><u>\$ 36,495</u></u>

See accompanying notes to the basic financial statements.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

1. DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

Reporting Entity

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

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

The City is associated with the Stark Council of Governments, the Stark Area Regional Transit Authority, Stark County Tax Incentive Review Council, and Stark County Regional Planning Commission which are defined as Jointly Governed Organizations and the Local Organized Governments in Cooperation, which is defined as a Joint Venture. These organizations are presented in Note 18 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

A. Basis of Accounting

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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

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

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

Proprietary Funds

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

Enterprise Funds

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

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

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

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

Internal Service Fund

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's trust fund is a private-purpose trust fund established to account for unclaimed funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The most significant of the City's agency funds account for property tax and court fine and forfeiture collections held for other entities and deposits held for the repair of fire damaged structures.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

C. Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On the accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and rentals.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetary Process

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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

F. Cash and Cash Equivalents

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

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

H. Inventory

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

I. Capital Assets

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

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

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

The City's infrastructure consists of sanitary sewers and current year improvements to general infrastructure assets (i.e. roads and storm sewers). GASB Statement No. 34 requires *prospective* reporting of general infrastructure assets from the date the government first implements the Statement. The Statement creates a transition period for the retroactive reporting of major general infrastructure assets. Based on these guidelines, governments are not required to report major general infrastructure assets acquired, reconstructed, improved, etc. between 1980 and the year of implementation until 2006. Only infrastructure capital assets acquired or constructed in 2003 and 2004 are reflected in the basic financial statements for the fiscal year ended December 31, 2004.

J. Deferred Charges and Bond Premiums

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

K. Interfund Balances

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

L. Compensated Absences

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Fund Balance Reserves

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

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes primarily include amounts to provide security of persons and property, leisure time activities, and economic development and assistance services.

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

P. Operating Revenues and Expenses

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Q. Contributions of Capital

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

R. Interfund Activity

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

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

S. Estimates

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

3. CHANGE IN ACCOUNTING PRINCIPLES

For 2004, the City has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units," GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers." These new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

4. BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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

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

Net Change in Fund Balance	
GAAP Basis	\$ 386,861
Revenue Accruals	(188,602)
Expenditure Accruals	(314,351)
Encumbrances (Budget Basis)	
Outstanding at year end	<u>(184,651)</u>
Budget Basis	<u>\$ (300,743)</u>

5. DEPOSITS AND INVESTMENTS

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (Star Ohio).

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

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

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

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

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

Deposits: At year-end, the City's carrying amount of deposits was \$5,927,624 and the bank balance was \$6,416,374. Of the bank balance, \$505,700 was covered by Federal Depository Insurance or by collateral held by the City's agent in the City's name. Of the remaining balance, \$5,910,674 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

CITY OF MASSILLON, OHIO

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Investments: GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the City's investments be classified in categories of custodial credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City'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 City'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 City's name.

The only City investment at year-end was a repurchase agreement, a Category 3 investment, with a carrying value and fair value of \$2,875,000. Interest earned on the deposits in the Massillon Bicentennial expendable trust fund, the Massillon Municipal Court agency fund and certain street maintenance and repair special revenue funds are recorded in those funds as required by trust agreements and state statute. All other interest is legally required to be placed in the general fund. Interest revenue credited to the general fund during 2004 amounted to \$101,191, which includes \$97,414 assigned from other City funds.

6. PROPERTY TAX

Property taxes include amounts levied against all real and public utility property, and tangible personal (used in business) property located in the City. Real property taxes were levied after October 1, 2003 on the assessed value as of January 1, 2003, the lien date, and were collected in 2004. Assessed values are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes received in 2004 attached as a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility property taxes are assessed on tangible personal property at 100% of true value and on real property at 35% of assessed valuation. 2004 tangible personal property taxes are levied after October 1, 2003, on the value listed as of December 31, 2003, and are collected in 2004. Tangible personal property assessments are 25% of true value. The full-tax rate for all City operations applied to taxable property for the year ended December 31, 2004, was \$4.70 per \$1,000 of assessed valuation.

The assessed values upon which the 2004 taxes were collected are as follows:

<u>Property Category</u>	<u>2003 Assessed Value</u>	<u>Percent</u>	
<u>Real Property</u>			
Residential and Agricultural	\$ 322,697,930	63.1	%
Commercial, Industrial, Mineral	90,883,640	17.7	
Public Utilities	168,990	0.0	
<u>Tangible Personal Property</u>			
General	74,176,500	14.5	
Public Utilities	<u>24,232,810</u>	<u>4.7</u>	
Total	<u>\$ 512,159,870</u>	<u>100.0</u>	%

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

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Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility, and tangible personal property taxes, which became measurable as of December 31, 2004. However, since these tax collections will not be received during the available period, nor intended to finance 2004 operations, the receivable is offset by a credit to deferred revenue.

7. INCOME TAX

The City levies and collects an income tax of 1.8% on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated taxes at least quarterly and to file a final return annually. Income tax revenues are distributed between the general fund (79%), capital improvements fund (4%) and parks and recreation fund (17%). The parks and recreation fund also allocates income tax revenues to the debt service bond retirement park and recreation fund as needed.

8. RECEIVABLES

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

<u>Revenue description</u>	<u>Amount</u>
Cents per gallon and excise tax	\$ 540,276
Homestead and rollback	95,325
Local government	806,575
Miscellaneous grants	66,734
Motor vehicle tax	5,219
Public utility reimbursement	6,124
Waste management grant	2,194
WIC reimbursements	17,853
Police reimbursements	29,280
Total	<u>\$ 1,569,580</u>

CITY OF MASSILLON, OHIO

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9. CAPITAL ASSETS

Capital asset activity for the year ending December 31, 2004 was as follows:

Governmental Activities: A summary of the governmental activities' capital assets as of December 31, 2004 follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>1/1/2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/2004</u>
Capital assets, not being depreciated:				
Land	\$ 8,054,603	\$ 8,030	\$ -	\$ 8,062,633
Construction in progress	<u>2,858,830</u>	<u>1,021,707</u>	<u>(1,245,346)</u>	<u>2,635,191</u>
Total capital assets, not being depreciated	<u>10,913,433</u>	<u>1,029,737</u>	<u>(1,245,346)</u>	<u>10,697,824</u>
Capital assets, being depreciated:				
Land improvements	3,176,160	8,100	-	3,184,260
Buildings	14,009,330	575,270	-	14,584,600
Vehicles	3,760,613	195,725	(102,885)	3,853,453
Machinery and equipment	2,318,389	277,191	(7,225)	2,588,355
Infrastructure	<u>490,825</u>	<u>1,255,256</u>	<u>-</u>	<u>1,746,081</u>
Total capital assets, being depreciated	<u>23,755,317</u>	<u>2,311,542</u>	<u>(110,110)</u>	<u>25,956,749</u>
Less accumulated depreciation:				
Land improvements	(438,989)	(81,872)	-	(520,861)
Buildings	(3,947,048)	(356,432)	-	(4,303,480)
Vehicles	(2,732,475)	(260,291)	95,552	(2,897,214)
Machinery and equipment	(1,127,467)	(159,513)	5,986	(1,280,994)
Infrastructure	<u>(21,675)</u>	<u>(33,533)</u>	<u>-</u>	<u>(55,208)</u>
Total accumulated depreciation	<u>(8,267,654)</u>	<u>(891,641)</u>	<u>101,538</u>	<u>(9,057,757)</u>
Total capital assets being depreciated, net	<u>15,487,663</u>	<u>1,419,901</u>	<u>(8,572)</u>	<u>16,898,992</u>
Governmental activities capital assets, net	<u>\$ 26,401,096</u>	<u>\$ 2,449,638</u>	<u>\$ (1,253,918)</u>	<u>\$ 27,596,816</u>

Depreciation Expense: Depreciation expense charged to governmental functions for the year ending December 31, 2004 is as follows:

<u>Depreciation Expense:</u>	
General government	\$ 128,366
Security of persons and property	624
Public health and welfare	237,340
Leisure time activities	1,378
Economic development and assistance	395,756
Transportation	<u>128,177</u>
Total depreciation expense	<u>\$ 891,641</u>

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Business-type Activities: A summary of the business-type activities' capital assets as of December 31, 2004 follows:

<u>Business-Type Activities</u>	Balance <u>1/1/2004</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/2004</u>
Capital assets, not being depreciated:				
Land	\$ 3,052,637	\$ -	\$ -	\$ 3,052,637
Construction in progress	<u>32,182,434</u>	<u>4,188,597</u>	<u>(693,768)</u>	<u>35,677,263</u>
Total capital assets, not being depreciated	<u>35,235,071</u>	<u>4,188,597</u>	<u>(693,768)</u>	<u>38,729,900</u>
Capital assets, being depreciated:				
Land improvements	2,117,426	-	-	2,117,426
Buildings	8,313,414	-	-	8,313,414
Vehicles	1,011,676	154,137	(260,804)	905,009
Machinery and equipment	2,231,718	-	-	2,231,718
Infrastructure	<u>9,529,071</u>	<u>704,642</u>	<u>-</u>	<u>10,233,713</u>
Total capital assets, being depreciated	<u>23,203,305</u>	<u>858,779</u>	<u>(260,804)</u>	<u>23,801,280</u>
Less accumulated depreciation:				
Land improvements	(953,878)	(112,141)	-	(1,066,019)
Buildings	(4,855,027)	(197,661)	-	(5,052,688)
Vehicles	(790,204)	(62,776)	260,804	(592,176)
Machinery and equipment	(1,349,594)	(148,920)	-	(1,498,514)
Infrastructure	<u>(5,207,761)</u>	<u>(227,889)</u>	<u>-</u>	<u>(5,435,650)</u>
Total accumulated depreciation	<u>(13,156,464)</u>	<u>(749,387)</u>	<u>260,804</u>	<u>(13,645,047)</u>
Total capital assets being depreciated, net	<u>10,046,841</u>	<u>109,392</u>	<u>-</u>	<u>10,156,233</u>
Business-type activities capital assets, net	<u>\$ 45,281,912</u>	<u>\$ 4,297,989</u>	<u>\$ (693,768)</u>	<u>\$ 48,886,133</u>

10. CAPITAL LEASES

The City leases various vehicles and equipment through capital leasing arrangements in the governmental and proprietary fund types. The assets and obligations for agreements of the governmental funds are recorded in the statement of net assets. Governmental capital assets attributable to capital leases consist of vehicles in the amount of \$284,690 and machinery and equipment in the amount of \$155,894. There are also \$132,218 in vehicles, and \$257,570 in equipment recorded as business-type capital assets as the result of capital lease agreements. The payments for these capital leases are shown on a GAAP basis as debt service expenditures in the general and other governmental funds. Payments related to lease agreements in the enterprise funds are shown as a reduction of capital leases payable and interest expense.

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The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2004.

<u>Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2005	\$ 78,012	\$ 117,748
2006	78,012	114,377
2007	27,934	83,803
2008	<u>20,950</u>	<u>62,853</u>
Total minimum lease payments	204,908	378,781
Less: amount representing interest	<u>15,617</u>	<u>34,635</u>
Present value of minimum lease payments	<u>\$ 189,291</u>	<u>\$ 344,146</u>

11. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers for the year ended December 31, 2004, consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>		
	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Lincoln Center bond retirement	\$ 205,488	\$ -	\$ 205,488
Nonmajor governmental funds	<u>748,960</u>	<u>83,664</u>	<u>832,624</u>
Total	<u>\$ 954,448</u>	<u>\$ 83,664</u>	<u>\$ 1,038,112</u>

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

During the year ended December 31, 2004, the City made transfers totaling \$748,998 from the general fund to the police and fire pension funds and a debt service fund. In addition, the general fund transferred \$205,488 to the Lincoln Center bond retirement debt service fund. These transfers represent amounts necessary to carry out the purpose of the program prior to receiving additional funding and to cover shortages resulting from retiring debt and paying the employer's share of police and fire pensions.

Interfund balances at December 31, 2004 consisted of the following:

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

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All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of December 31, 2004, all interfund loans outstanding are anticipated to be repaid by 2006. The golf course fund will pay back the general and park and recreation fund as shown below:

	<u>2005</u>	<u>2006</u>	<u>Total</u>
General fund	\$ 20,000	\$ 50,000	\$ 70,000
Park and recreation fund	<u>10,000</u>	<u>10,000</u>	<u>20,000</u>
Totals	<u>\$ 30,000</u>	<u>\$ 60,000</u>	<u>\$ 90,000</u>

12. CONTRACTUAL COMMITMENTS

The City had several outstanding construction projects as of December 31, 2004. These projects are evidenced by contractual commitments with contractors and include:

	<u>Spent to date</u>	<u>Commitment remaining</u>
Wastewater Treatment Plant Upgrade	\$ 35,296,752	\$ 4,091,392
Pedestrian Bridge	383,065	53,749
16th Street Reconstruction Project	2,229,572	196,414
Lincolnway West Pump Station	<u>139,930</u>	<u>142,566</u>
Totals	<u>\$ 38,049,319</u>	<u>\$ 4,484,121</u>

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

13. CONDUIT DEBT OBLIGATIONS

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
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14. BONDED DEBT AND OTHER LONG-TERM OBLIGATIONS

A listing of changes in the bonds and other long-term obligations of the City for the year ended December 31, 2004 follows:

	<u>Balance 1/1/2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2004</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
<u>General Obligation Bonds</u>					
2002 Lincoln Center					
Phase II Refunding, 1.5-4%	\$ 2,850,000	\$ -	\$ (225,000)	\$ 2,625,000	\$ 230,000
1994 Senior Center					
8.00-8.50%	1,175,000	-	(20,000)	1,155,000	25,000
2002 Park and Recreation, 5.2%	12,305,000	-	(55,000)	12,250,000	75,000
2004 Marketplace TIF, 1.5-4.2%					
Serial and Term Bonds	-	1,665,000	(90,000)	1,575,000	80,000
Capital Appreciation Bonds	-	109,999	-	109,999	-
Accretion on Bonds	-	7,701	-	7,701	-
Total General Obligation	<u>16,330,000</u>	<u>1,782,700</u>	<u>(390,000)</u>	<u>17,722,700</u>	<u>410,000</u>
<u>Bond Anticipation Notes</u>					
2003 Marketplace Infra- structure, 1.95%	1,775,000	-	(1,775,000)	-	-
Lincoln Center, Phase III					
2003, 2.08%	1,612,000	-	(1,612,000)	-	-
2003, 1.88%	1,303,000	-	(1,303,000)	-	-
2004, 1.55%	-	2,957,000	(2,957,000)	-	-
2004, 2.67%	-	2,993,000	-	2,993,000	2,993,000
Total Bond Anticipation	<u>4,690,000</u>	<u>5,950,000</u>	<u>(7,647,000)</u>	<u>2,993,000</u>	<u>2,993,000</u>
<u>Special Assessment Bonds</u>					
1985 Street Improve- ments 9.125%	18,000	-	(9,000)	9,000	9,000
1995 Castle West Circle and Shaw Ave, 5.50%	55,000	-	(25,000)	30,000	30,000
Total Special Assessment	<u>73,000</u>	<u>-</u>	<u>(34,000)</u>	<u>39,000</u>	<u>39,000</u>
<u>Loans Payable</u>					
1999 HUD Section 108	2,125,000	-	(45,000)	2,080,000	50,000
<u>Special Obligation Debt</u>					
1993 State Hospital, 0.0%	42,684	-	(42,684)	-	-
<u>Other Obligations</u>					
Police and firemen's pension liability	1,605,201	-	(25,035)	1,580,166	26,110
Long-term compensated absences	2,049,491	641,833	(216,506)	2,474,818	182,548
Capital leases payable	133,536	144,732	(88,977)	189,291	69,831
Total Governmental Activities	<u>\$ 27,048,912</u>	<u>\$ 8,519,265</u>	<u>\$ (8,489,202)</u>	<u>\$ 27,078,975</u>	<u>\$ 3,770,489</u>

CITY OF MASSILLON, OHIO

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	<u>Balance 1/1/2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2004</u>	<u>Due within one year</u>
<u>Business-Type Activities</u>					
<u>General Obligation Bonds</u>					
2002 Wastewater Refunding Series 88, 1.5 - 3.0%	\$ 775,000	\$ -	\$ (150,000)	\$ 625,000	\$ 150,000
2002 Golf Course Construction Refunding, 1.5 - 7.16%	5,965,000	-	(70,000)	5,895,000	65,000
Unamortized Discount	(66,120)	-	4,131	(61,989)	-
Unamortized Deferred Cost	(231,802)	-	32,956	(198,846)	-
Capital Appreciation Bonds	1,226,233	-	-	1,226,233	-
Accretion on Bonds	-	54,358	-	54,358	-
Total General Obligation	7,668,311	54,358	(182,913)	7,539,756	215,000
<u>Special Obligation Debt</u>					
2001 State Hospital, 0%	61,184	-	(47,115)	14,069	-
<u>Loans Payable</u>					
1999 WPCL Fothergill, 3.81%	1,231,400	-	(54,817)	1,176,583	56,926
Wastewater Plant WPC, 3.2%	509,466	-	(250,688)	258,778	258,778
WWTP Upgrade OWDA, 1.26%	5,882,788	248,690	(152,508)	5,978,970	-
WWTP Upgrade OWDA, 1.26%	28,892,974	4,121,127	(780,070)	32,234,031	-
Total Loans	36,516,628	4,369,817	(1,238,083)	39,648,362	315,704
<u>Other Long-term Obligations</u>					
Capital leases	487,976	-	(143,830)	344,146	101,274
Compensated absences	441,379	189,902	(71,107)	560,174	51,545
Total Business-Type Activities	\$ 45,175,478	4,614,077	(1,683,048)	48,106,507	683,523

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

The 2004 Marketplace TIF and the 2002 Golf Course Construction Refunding bond issues include serial and capital appreciation bonds. Current year additions to the 2004 Marketplace TIF and the 2002 Golf Course Construction Refunding bonds amounted to \$7,701 and \$54,358, respectively, which represent the accretion of discounted interest. The final amounts of the capital appreciation bonds will be \$285,000 and \$910,000, respectively.

Special Bonds: Special assessment bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefited from the project. Special assessment monies will be received in and the debt will be retired through the special assessment bond retirement debt service fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments. Special assessment receivable includes \$6,092 of delinquencies as of year-end.

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Bond Anticipation Notes: During 2004, bond anticipation notes were issued for \$5,950,000 to finance the construction of the Lincoln Center complex. The bond anticipation notes were issued to encourage development in a redevelopment area. Revenues for payment of interest and principal on the bond result from service payments being made in lieu of taxes.

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

The City also entered into an agreement with the Ohio Water Development Authority (OWDA) to upgrade and expand the City's wastewater treatment facility. The agreement provides loan proceeds totaling \$42.5 million which will be received by the City and used to fund the projects. The debt proceeds will be repaid by wastewater service charges semi-annually over 20 years at 1.26% per annum. Under the terms of the agreement, the OWDA will reimburse or directly pay the construction costs of the approved projects. The OWDA will capitalize administrative costs and construction interest and add them to the total of each loan. As of December 31, 2004, the City has received \$38,766,036 of the proceeds. An amortization schedule is not presented since repayment is not required until all proceeds have been received.

Special Obligation: In 1993, the City acquired eighty-eight acres of land from the Massillon Psychiatric Center in exchange for City services equal to the fair market value of the land, which was \$450,900. In 2001, the City acquired another piece of land from the Massillon Psychiatric Center in exchange for services and a yearly payment of approximately \$25,712. During 2004, the City satisfied all remaining obligations pursuant to the 1993 agreement. Remaining obligations of the 2001 agreement are expected to be satisfied in 2005.

The annual requirements to amortize all governmental activity debt outstanding as of December 31, 2004, including interest payments, are as follows:

Year	General Obligation Bonds		Section 108 Loan	
	Principal	Interest	Principal	Interest
2005	\$ 410,000	\$ 856,344	\$ 50,000	\$ 161,646
2006	435,000	845,794	55,000	158,076
2007	465,000	833,102	55,000	154,154
2008	500,000	818,548	60,000	150,183
2009	530,000	801,185	65,000	145,852
2010-2014	4,121,532	3,688,790	400,000	649,346
2015-2019	2,693,467	2,666,368	1,395,000	472,044
2020-2024	3,275,000	1,822,830	-	-
2025-2029	3,585,000	980,250	-	-
2030-2031	1,700,000	128,500	-	-
Total	<u>\$ 17,714,999</u>	<u>\$ 13,441,711</u>	<u>\$ 2,080,000</u>	<u>\$ 1,891,301</u>

CITY OF MASSILLON, OHIO

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Special Assessment Bonds

Year	Principal	Interest
2005	<u>\$ 39,000</u>	<u>\$ 2,471</u>

The annual requirements to amortize all business-type activity debt outstanding as of December 31, 2004, including interest payments, are as follows:

Year	General Obligation Bonds		Water Pollution Control Loans	
	Principal	Interest	Principal	Interest
2005	\$ 215,000	\$ 308,223	\$ 315,700	\$ 50,518
2006	320,000	303,923	59,116	42,101
2007	355,000	296,402	61,389	39,827
2008	365,000	286,995	63,750	37,466
2009	255,000	276,045	66,202	35,014
2010-2014	1,018,696	1,605,370	371,221	134,860
2015-2019	1,372,537	1,185,765	448,320	57,762
2020-2024	1,345,000	792,575	49,663	946
2025-2029	1,700,000	439,375	-	-
2030-2031	800,000	57,475	-	-
Total	<u>\$ 7,746,233</u>	<u>\$ 5,552,148</u>	<u>\$ 1,435,361</u>	<u>\$ 398,494</u>

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

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

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

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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

Debt Limitation: The Ohio Revised Code provides that the net general obligation debt of the City, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 1% of the total assessed valuation of the City.

The Code further provides that the total voted and unvoted net debt of the City, less the same exempt debt, shall never exceed a sum equal to 3% of the first \$100,000,000 of the assessed valuation, plus 1-1/2% of such valuation in excess of \$100,000,000 and not in excess of \$300,000,000, plus 2-1/2% of such valuation in excess of \$300,000,000. Based on this calculation, the City's legal debt margin was \$11,303,997 as of December 31, 2004.

15. DEFINED BENEFIT PENSION PLANS

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

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2003, member and employer contribution rates were across all three plans (TP, MD and CP). Separate divisions for law enforcement and public safety exist only within the Traditional Plan. The 2004 member contribution rates were 8.5% for members in classifications other than law enforcement and public safety. Members in the law enforcement classification, which consist of sheriffs, deputy sheriffs, and township police contributed at a rate of 10.1%. Public safety division members contribute 9%. The 2004 employer contribution rate for employees other than law enforcement and public safety division was 13.55%. For both law enforcement and public safety divisions the employer contribution rate was 16.70%. Total required employer contributions for all plans (TP, MD and CP) are equal to 100% of employer charges and must be extracted from the employer's records. The City's contributions to OPERS for the years ended December 31, 2004, 2003 and 2002 were \$741,972, 696,871 and \$676,768 respectively; 87.24% has been contributed for 2004 and 100 percent for 2003 and 2002. \$134,289, representing the unpaid contribution for 2004, is recorded as a liability within the respective funds.

OP&F: Plan members are required to contribute 10% of their covered salary to fund pension obligations, while employers are required to contribute 19.5% and 24.0%, respectively, for police officers and firefighters. Contributions are authorized by state statute. The City's required contributions to OP&F for the years ending December 31, 2004, 2003, and 2002 were \$666,414, \$657,725 and \$641,845, respectively. The full amount has been contributed for 2003 and 2002. Approximately 73% has been contributed for 2004 with the remainder being reported as a liability within the respective funds.

16. POSTEMPLOYMENT BENEFITS

OPERS administers three separate pension plans, the Traditional Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CP), all of which are described in Note 15. OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the TP and MD Plans; however, health care benefits are not statutorily guaranteed. Members of the MD Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the TP and CP plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2004 employer contribution rate for local government employers was 13.55% of covered payroll and 4.00% was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2004 employer rate was 16.70% of covered payroll and 4.00% was the portion used to fund health care.

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

The assumptions and calculations below were based on OPERS's latest actuarial review performed as of December 31, 2003. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2003 was 8.00%. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

At year-end 2004, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,885.

The actuarially accrued liability and the unfunded actuarially accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2003 (latest information available) was \$10.5 billion.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

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

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

The Ohio Revised Code provides the statutory authority allowing OP&F's Board of Trustees to offer health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2003 and in 2004. In addition, since July 1, 1992, most retirees and survivors were required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The numbers of participants eligible to receive health care benefits as of December 31, 2003, the date of the last actuarial valuation available, are 13,662 for Police and 10,474 for Firefighters.

The City's actual contributions for 2004 that were used to fund post-employment benefits were \$369,596.

OP&F's total health care expense for the year ending December 31, 2003, the date of the last actuarial valuation available, was \$150,853,148, which was net of member contributions of \$17,207,506.

17. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City contracts with Public Entities Pool of Ohio (the Pool), a local government risk pool. The Pool was formed in 1986 for the primary purpose of managing and funding third party liability claims against its members. As a member of the Pool, the City is required to make annual budgetary contributions sufficient to annually produce a sum of money necessary to fund the administrative expenses and reinsurance expenses of the Pool to pay current year claims and claims expenses, and to fund any deficiencies in the Cumulative Reserve Fund. Contributions to the Cumulative Reserve Fund shall be made for the first six years of membership based on a sliding scale. The purpose of this fund is to maintain a reserve at a level equal to 300% of the total current basis rates of all members. No member shall be responsible for any claim, judgment or judgments against any other member except to the extent of the assets of the Cumulative Reserve Fund and the Budgetary Fund. However, if upon termination of the Pool the remaining assets of the Pool are insufficient to satisfy indebtedness of the Pool, such deficiency shall be made up by assessments against members of the Pool by a fair and reasonable method established by the Committee/Board. At year ended December 31, 2001 (the latest information available) the Pool's total unpaid claims and claim adjustments totaled \$8,085,304 and total assets equaled \$19,358,458.

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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

<u>Casualty Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	30,547,049	25,288,098
Liabilities	<u>(16,989,918)</u>	<u>(12,872,985)</u>
Retained Earning	<u>\$ 13,557,131</u>	<u>\$ 12,415,113</u>

<u>Property Coverage</u>		
Assets	\$ 3,652,970	\$ 3,158,813
Liabilities	<u>(544,771)</u>	<u>(792,061)</u>
Retained Earnings	<u>\$ 3,108,199</u>	<u>\$ 2,366,752</u>

The City uses an internal service fund to record and report its self-funded health care insurance program. During 2003, the City changed its medical health insurance and is no longer self-insured, rather the City is now commercially insured. The City remains self-insured for vision and dental coverage for employees. The claims liability of \$2,869 reported in the fund at December 31, 2004, was estimated by third party administrators and is based on the requirements of GASB Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The City purchases stop-loss coverage of \$35,000 per employee. Changes in the fund's claims liability during 2003 and 2004 were:

	Balance at beginning <u>of year</u>	Current <u>year claims</u>	Claim <u>payments</u>	Balance at end <u>of year</u>
2003	\$ 119,069	32,383	147,834	\$ 3,618
2004	\$ 3,618	32,920	33,669	\$ 2,869

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

18. JOINTLY GOVERNED ORGANIZATIONS AND JOINT VENTURE

Jointly Governed Organizations

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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

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

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

The City participates in the Stark County Regional Planning Commission (the Commission) which is a statutorily created political subdivision of the State. The Commission is jointly governed among Stark County, other cities, villages and townships. Of the forty-eight member board, the City appoints two members. The degree of control exercised by any participating government is limited to its representation on the board. The principal aim of the Commission is to provide comprehensive planning, both long and short range, dealing with the economic and physical environment of Stark County. The board exercises total authority for the day-to-day operations of the Commission. These include budgeting, appropriating, contracting, and designating management. The City has no financial responsibility for any of the Commission's liabilities. In 2004, the City contributed a nominal amount to the Commission, which represented less than 1% of total contributions. Complete financial statements may be obtained from the Stark County Regional Planning Commission, Stark County, Ohio.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

Joint Venture

The City participates in the Local Organized Governments in Cooperation (LOGIC), a statutorily created political subdivision of the State formed in 1986 to provide safety dispatching services. LOGIC is a joint venture among the City, Jackson Township, City of Canal Fulton, and Hills and Dales Village, with each participant providing one representative. Each representative has a membership share based on the percentage of contractual financial contributions to the total funding, and each participant is entitled to vote its percentage share. The board has total authority over the operation of LOGIC, including budgeting, appropriating, contracting, and designating management. Continued existence of LOGIC is dependent on the City's continued participation. LOGIC does not provide specific financial benefits or impose specific financial burdens on the City. During 2004, the City made contributions of \$326,880, but does not have an equity interest in LOGIC. Financial statements of LOGIC may be obtained from Local Organized Governments in Cooperation, Canton, Ohio.

19. FUND DEFICITS

As of December 31, 2004, the Legends Golf Course enterprise fund had a deficit net asset balance of \$1,669,471. In addition, the police pension and fire pension special revenue funds had deficit fund balances of \$120,022 and \$155,459 respectively. These deficits were a result of the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances in other funds, however, this is done when cash is needed rather than when accruals occur.

20. CONTINGENT LIABILITIES

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

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CITY OF MASSILLON
STARK COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2004

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>				
<i>Passed Through Ohio Department of Education and the City of Canton</i>				
Special Supplemental Nutrition Program for Women, Infants and Children	01-76201FCL389	10.557	\$ 103,690	\$ 105,614
Child and Adult Care Food Program	092965-CCCN-2004 092965-CCMO-2004	10.558	4,514 <u>127,758</u>	71,094 <u>-</u>
Total Child and Adult Care Food Program			132,272	71,094
Summer Food Service Program for Children	092965-23NP-2004	10.559	38,623	69,004
Total U.S. Department of Agriculture			274,585	245,712
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>				
<i>Passed Through Ohio Department of Transportation</i>				
Highway Planning and Construction	03N082-9527	20.205	1,041,003	967,799
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
<i>Direct</i>				
Community Development Block Grants/Entitlement Grants		14.218	882,509	943,587
<i>Passed Through Stark County HOME Consortium</i>				
HOME Investment Partnerships Program	M02DC390204	14.239	<u>206,746</u>	<u>178,716</u>
Total U.S. Department of Housing and Urban Development			1,089,255	1,122,303
<u>U.S. DEPARTMENT OF JUSTICE:</u>				
<i>Direct</i>				
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program		16.580	13,705	13,705
<i>Passed Through Ohio Office of Criminal Justice Services</i>				
Local Law Enforcement Block Grants Program	2002LBVX0946 2003LBVX2327 2004LBVX1166	16.592	<u>12,743</u>	1,989 13,902 <u>-</u>
Total Local Law Enforcement Block Grants Program			12,743	15,891
Violence Against Women Formula Grants	2002WFVA2-8225	16.588	<u>44,417</u>	<u>65,425</u>
Total U.S. Department of Justice			70,865	95,021
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>				
<i>Passed Through the Ohio Department of Health</i>				
Centers for Disease Control and Prevention_Investigations and Technical Assistance	76-2-001-2-BI-04	93.283	24,031	15,847
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>				
<i>Passed Through the Ohio Department of Public Safety</i>				
Public Assistance Grant	1484-DR-151-48244	97.036	18,745	18,745
<i>Direct</i>				
Assistance to Firefighters		97.044	<u>38,901</u>	<u>43,224</u>
Total U.S. Department of Homeland Security			<u>57,646</u>	<u>61,969</u>
Totals			<u>\$ 2,557,385</u>	<u>\$ 2,508,651</u>

**CITY OF MASSILLON
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
DECEMBER 31, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - SUBRECIPIENTS

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

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

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

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

These loans are collateralized by a deed of trust of mortgage in favor of the City upon all land, buildings, fixtures, equipment, and other assets of the applicant comprising the project, and by the applicant's personal guarantee of repayment, unconditionally and irrevocably guaranteeing repayment of the revolving loan funds of the City. At December 31, 2004, the gross amount of loans outstanding under this program was \$3,444,085. Of this balance, \$22,847 is presented on the Balance Sheet as "Loans Receivable" and \$3,421,238 is presented on the Balance Sheet as "Notes Receivable" since the City actually holds a mortgage note for the amount loaned to the developer.

NOTE D - MATCHING REQUIREMENTS

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

NOTE E - U.S. DEPARTMENT OF HOMELAND SECURITY FEDERAL AWARDS

The Federal Homeland Security Act of 2002 established the Department of Homeland Security (the Department) to consolidate functions of other Federal agencies related to homeland security. Effective January 24, 2003, the Department began to administer certain Federal awards the City previously received from other Federal agencies. The accompanying Federal Awards Receipts and Expenditure Schedule reports all such 2004 award amounts under the Department's Catalog of Federal Domestic Assistance (CFDA) numbers. The purposes and compliance requirement of these programs has not changed.



Auditor of State Betty Montgomery

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

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

To the Honorable Mayor and City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Massillon, Stark County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 22, 2005. 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 Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated November 22, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2004-001. In a separate letter to the City's management dated November 22, 2005, we reported other matters related to noncompliance we deemed immaterial.

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Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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

We intend this report solely for the information and use of the audit committee, management, Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

November 22, 2005



**Auditor of State
Betty Montgomery**

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

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

To the Honorable Mayor and City Council:

Compliance

We have audited the compliance of the City of Massillon, Stark County, Ohio, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. The summary of auditor's results section of the accompanying Schedule of Findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

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

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

We intend this report solely for the information and use of the audit committee, management, City Council, and federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

November 22, 2005

CITY OF MASSILLON
STARK COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2004

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	20.205 – Highway Planning and Construction
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING NUMBER 2004-001

Material Noncompliance:

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

During 2004 the following conditions were noted:

- 14 out of 20 (70%) recreation center receipts were not deposited with the City Auditor or designated depository for a period of 2 days after initial receipt of the money;

**FINDING NUMBER 2004-001
(Continued)**

- 13 out of 60 (22%) income tax receipts tested were not deposited with the City Auditor or designated depository for a period ranging between 2 to 8 days after the initial receipt of the money;
- 20 out of 40 (50%) golf course receipts tested were not deposited with the Treasurer or designated depository for a period ranging from 2 to 3 days after initial receipt of the money.

Although the City adopted a policy permitting officials to hold daily receipts that do not exceed \$1,000 for no later than 3 business days after initial receipt, as allowed by the code section, the aforementioned department officials had daily receipts that exceeded the \$1,000 limit. Delays of this nature could cause City daily receipts to be lost or misplaced without being detected in a timely manner. The City should properly safeguard receipts and implement Ohio Rev Code Section 9.38 relative to depositing requirements and procedures.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None



**Auditor of State
Betty Montgomery**

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**CITY OF MASSILLON
STARK COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 27, 2005**