

Massillon City School District
Stark County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2012



Dave Yost • Auditor of State

Board of Education
Massillon City School District
930 17th Street NE
Massillon, Ohio 44646

We have reviewed the *Independent Auditor's Report* of the Massillon City School District, Stark County, prepared by Rea & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Massillon City School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

March 1, 2013

This page intentionally left blank.

MASSILLON CITY SCHOOL DISTRICT
Stark County, Ohio
Audited Financial Statements
For the Year Ended June 30, 2012
Table of Contents

	<i>Page</i>
Independent Auditor’s Report.....	1-2
Management’s Discussion and Analysis.....	3-10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund.....	17
Statement of Fiduciary Net Assets	18
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust Fund.....	19
Notes to the Basic Financial Statements	20-54
Independent Auditor’s Report On Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	55-56
Independent Auditor’s Report On Compliance With Requirements That Could Have A Direct and Material Effect on Each Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	57-58
Schedule of Expenditures of Federal Awards – Cash Basis	59
Notes to the Schedule of Expenditures of Federal Awards – Cash Basis	60
Schedule of Findings and Questioned Costs	61-64
Schedule of Prior Audit Findings	65

This page intentionally left blank.

December 29, 2012

The Board of Education
Massillon City School District
Stark County, Ohio
930 17th Street NE
Massillon, Ohio 44646

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Massillon City School District, Stark County, Ohio (the School District), as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2012, and the respective changes in financial position, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2012, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis, as required by the U. S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Hea & Associates, Inc.

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

The discussion and analysis of the Massillon City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- Net assets decreased \$2,223,447, which represents a 5.74 percent decrease from 2011.
- Capital assets decreased \$2,026,354 during fiscal year 2012.
- During the year, outstanding debt, excluding unamortized premiums and refunding losses, decreased from \$13,949,389 to \$11,686,898 due to principal payments made by the School District

Using this Annual Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2012?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

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

In the *Statement of Net Assets* and the *Statement of Activities*, Governmental Activities include the School District's programs and services, including instruction, support services, extracurricular activities, and non instructional services, i.e., food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The major funds financial statements begin on page 13. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the general fund.

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

Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for some of its scholarship and foundation programs. This activity is presented as a private purpose trust fund. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 18 and 19. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2012 compared to 2011:

Table 1
Net Assets

	Governmental Activities	
	2012	2011
Assets		
Current and Other Assets	\$ 30,048,023	\$ 30,161,072
Capital Assets	39,930,465	41,956,819
<i>Total Assets</i>	69,978,488	72,117,891
Liabilities		
Other Liabilities	18,434,548	16,117,814
Long-Term Liabilities	15,005,963	17,238,653
<i>Total Liabilities</i>	33,440,511	33,356,467
Net Assets		
Invested in Capital Assets, Net of Debt	28,501,114	29,766,004
Restricted	7,570,572	9,196,134
Unrestricted	466,291	(200,714)
<i>Total Net Assets</i>	\$ 36,537,977	\$ 38,761,424

At year end, capital assets represented 57 percent of total assets. Capital assets include, land, land improvements, buildings and improvements, furniture and fixtures and vehicles. Capital assets, net of related debt were \$28,501,114 at June 30, 2012. These capital assets are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net assets, \$7,570,572 or 21 percent, represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net assets of \$466,291 may be used to meet the government's ongoing obligations to students and creditors.

Total assets decreased \$2,139,403. The largest decrease was in capital assets due to current year depreciation exceeding current year additions.

Other liabilities increased by \$2,316,734 due to deferred revenue increasing. Long term liabilities decreased by \$2,232,690 due to principal payments made by the School District. The net result is an \$84,044 increase in total liabilities.

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

Table 2 shows the changes in net assets for fiscal year 2012 and 2011.

Table 2
Changes in Net Assets

	Governmental Activities	
	2012	2011
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 3,661,657	\$ 3,009,864
Operating Grants	5,916,852	7,766,405
Capital Grants	22,345	15,201
Total Program Revenues	9,600,854	10,791,470
<i>General Revenues:</i>		
Property Taxes	13,646,808	15,643,689
Income Taxes	36,171	19,497
Grants and Entitlements Not Restricted	23,263,244	25,119,172
Other	378,136	177,433
Total General Revenues	37,324,359	40,959,791
Total Revenues	46,925,213	51,751,261
Program Expenses		
Instruction:		
Regular	19,926,416	21,557,316
Special	5,215,272	5,678,378
Vocational	2,031,532	1,792,424
Adult/Continuing	47,229	46,950
Student Intervention Services	190,974	262,276
Other	834,967	935,713
Support Services:		
Pupils	3,042,934	3,356,494
Instructional Staff	1,641,888	1,805,090
Board of Education	187,267	511,222
Administration	3,173,475	2,997,902
Fiscal	1,082,293	997,118
Business	8,716	10,308
Operation and Maintenance of Plant	4,732,163	4,756,007
Pupil Transportation	1,700,045	1,879,324
Central	636,196	973,286
Operation of Non-Instructional Services:		
Food Service Operations	1,782,846	1,695,501
Community Services	229,790	312,215
Other	29,260	2,676
Extracurricular Activities	1,956,794	1,864,022
Debt Service:		
Interest and Fiscal Charges	698,603	700,981
Total Expenses	49,148,660	52,135,203
Increase (Decrease) in Net Assets	(2,223,447)	(383,942)
Net Assets at Beginning of Year	38,761,424	39,145,366
Net Assets at End of Year	\$ 36,537,977	\$ 38,761,424

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

Expenses and revenues both decreased in fiscal year 2012 by \$2,986,543 and \$4,826,048, respectively. The decrease in operating grants of \$1,849,553 is due to federal ARRA and Education Jobs grants expiring. Property taxes also showed a decrease in the amount of \$1,996,881. This decrease is due to fluctuations in the amount available for advance at year end, which can vary based on when tax bills are sent. Unrestricted grants and entitlements decreased due to State Fiscal Stabilization funding expiring. The decrease in expenditures is directly related to the decrease in grant money in fiscal year 2012.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Service		Net Cost of Service	
	2012	2011	2012	2011
Instruction:				
Regular	\$ 19,926,416	\$ 21,557,316	\$ 16,875,373	\$ 17,984,754
Special	5,215,272	5,678,378	3,603,235	3,629,669
Vocational	2,031,532	1,792,424	1,489,474	1,287,303
Adult/Continuing	47,229	46,950	(9,887)	1,782
Student Intervention Services	190,974	262,276	61,102	154,302
Other	834,967	935,713	470,935	724,470
Support Services:				
Pupils	3,042,934	3,356,494	2,839,404	2,912,011
Instructional Staff	1,641,888	1,805,090	1,262,604	1,341,695
Board of Education	187,267	511,222	187,267	511,222
Administration	3,173,475	2,997,902	2,878,235	2,734,571
Fiscal	1,082,293	997,118	1,082,293	967,038
Business	8,716	10,308	8,716	10,308
Operation and Maintenance of Plant	4,732,163	4,756,007	4,504,489	4,555,360
Pupil Transportation	1,700,045	1,879,324	1,615,738	1,591,414
Central	636,196	973,286	621,796	920,978
Operation of Non-Instructional Services:				
Food Service Operations	1,782,846	1,695,501	(53,671)	47,475
Community Services	229,790	312,215	33,306	55,364
Other	29,260	2,676	29,260	2,676
Extracurricular Activities	1,956,794	1,864,022	1,349,534	1,210,360
Debt Service:				
Interest and Fiscal Charges	698,603	700,981	698,603	700,981
<i>Total Expenses</i>	\$ 49,148,660	\$ 52,135,203	\$ 39,547,806	\$ 41,343,733

The dependence upon general revenues for governmental activities is apparent. Over 75 percent of governmental activities are supported through taxes and other general revenues; such revenues are 80 percent of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

Governmental Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$47,655,968 and expenditures of \$51,897,751 for fiscal year. The net change in fund balances for the fiscal year was a decrease of \$1,814,304 for all governmental funds with the most significant decrease in the general fund.

The general fund's net change in fund balance for fiscal year 2012 was a decrease of \$1,278,651. Revenues decreased by \$1,779,042, mainly in tax revenue. This decrease is due to fluctuations in the amount available for advance at year end, which can vary based on when tax bills are sent. Expenses also decreased by \$1,225,708, due to cost savings measures in fiscal year 2012.

General Fund Budgeting Highlights

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

During the course of fiscal year 2012, the School District did amend its general fund budget a few times. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

For the general fund, actual budget basis revenue was \$38,532,561, which was lower than the final budget basis revenue by \$498,800. Most of this difference is due to an overestimation of intergovernmental revenue.

Final appropriations of \$50,823,758 were \$11,417,816 higher than the actual expenditures of \$39,405,942. Final appropriations were \$7,496,597 higher than original appropriations of \$43,327,161. These large variances are the result of error in the final appropriations ordinance.

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the School District had \$39,930,465 invested in capital assets. Table 4 shows fiscal year 2012 balances compared with 2011.

Table 4
Capital Assets at June 30
(Net of Depreciation)

	2012	2011
Land	\$ 3,552,636	\$ 3,552,636
Land Improvements	1,860,974	2,128,544
Buildings and Improvements	31,368,728	32,923,189
Furniture and Fixtures	2,468,803	2,533,152
Vehicles	679,324	819,298
Totals	\$ 39,930,465	\$ 41,956,819

The \$2,026,354 decrease in capital assets was attributable to depreciation and disposals exceeding additional purchases in the current year. See Note 6 for more information about the capital assets of the School District.

Debt

At June 30, 2012, the School District had \$11,686,898 in debt outstanding. See Note 15 for additional details. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt at Year End

	Governmental Activities	
	2012	2011
General Obligation Bonds:		
Various Series Bonds	\$ 11,315,000	\$ 9,635,000
Various Capital Appreciation Bonds	209,995	345,657
Accretion on Capital Appreciation Bonds	161,903	1,543,732
Bond Anticipation Note	0	2,425,000
Totals	\$ 11,686,898	\$ 13,949,389

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

Current Issues

Massillon City School District continued to maintain the highest standards of service to our students, parents and community which exceeded funding capability. The ultimate goal of the district is to offer the best educational and extra-curricular experience for students. However, fiscal realities have become pressing. Over the past three years, \$3.9 million in stimulus money has been lost, local and state revenue has declined and tangible personal property tax has reduced from \$3 million to \$700,000. In total, expenditures have eclipsed revenue, and we are now facing a debt of \$3.2 million.

In FY12, the Massillon City Board of Education voted to close three (3) elementary schools, reduce five (5) administrative positions, twenty-eight (28) certified positions and twenty (20) classified positions. All staff voted to take a wage and step increase freeze for FY13 and FY14. On November 6, 2012, the residents passed a \$3.4 million Emergency Levy with a term of 5 years.

Massillon is a proud community with a rich history. We need to preserve that. We are examining ways to reduce expenditures while minimizing the impact on students. Our immediate priority must be to stabilize our financial situation so that we may continue to provide the basic education services necessary for students and their families. Although the decisions being made are not easy, they are necessary to meet this immediate goal. We will be operating within a five-year forecast, heavily dependent on the results of the levy. Currently, we are anticipating a budget reduction plan of \$3.5 million. Beyond this immediate step, our long-term goal is to be a school district that inspires our community with our academic, artistic and athletic programs.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Sandy Moeglin, Treasurer of Massillon City School District, 930 17th Street N. E., Massillon, Ohio 44646 or smoeglin@massillonschools.org.

Massillon City School District
Stark County, Ohio
Statement of Net Assets
June 30, 2012

	Primary Government	Component Unit
	Governmental Activities	Massillon Digital Academy
Assets		
Equity in Pooled Cash and Investments	\$ 9,583,665	\$ 0
Cash and Cash Equivalents with Fiscal Agent	0	785,233
Cash and Cash Equivalents in Segregated Accounts	96,260	0
Investments in Segregated Accounts	2,561,974	0
Receivables:		
Accrued Interest	7,299	0
Intergovernmental	1,117,402	62,075
Property Taxes	16,395,432	0
Deferred Charges	285,991	0
Nondepreciable Capital Assets	3,552,636	0
Depreciable Capital Assets (Net)	36,377,829	25,805
<i>Total Assets</i>	<u>69,978,488</u>	<u>873,113</u>
Liabilities		
Accounts Payable	372,630	5,666
Accrued Wages and Benefits	3,844,581	0
Contracts Payable	40,664	0
Intergovernmental Payable	808,988	1,015
Accrued Vacation Leave Payable	49,918	0
Matured Compensated Absences Payable	165,411	0
Accrued Interest Payable	32,322	0
Deferred Revenue	13,120,034	0
Long Term Liabilities:		
Due Within One Year	834,121	0
Due In More Than One Year	14,171,842	0
<i>Total Liabilities</i>	<u>33,440,511</u>	<u>6,681</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	28,501,114	25,805
Restricted For:		
Capital Outlay	3,281,938	0
Debt Service	910,772	0
Other Purposes	3,377,862	72,449
Unrestricted	466,291	768,178
<i>Total Net Assets</i>	<u>\$ 36,537,977</u>	<u>\$ 866,432</u>

See accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2012

	Program Revenues				Net (Expense) Revenue Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Primary Government	Component Unit
					Governmental Activities	Massillon Digital Academy
Governmental Activities						
Instruction:						
Regular	\$ 19,926,416	\$ 2,449,448	\$ 601,595	\$ 0	\$ (16,875,373)	\$ 0
Special	5,215,272	165,116	1,446,921	0	(3,603,235)	0
Vocational	2,031,532	27,656	514,402	0	(1,489,474)	0
Adult/Continuing	47,229	0	57,116	0	9,887	0
Student Intervention Services	190,974	0	129,872	0	(61,102)	0
Other	834,967	0	364,032	0	(470,935)	0
Support Services:						
Pupils	3,042,934	0	203,530	0	(2,839,404)	0
Instructional Staff	1,641,888	0	379,284	0	(1,262,604)	0
Board of Education	187,267	0	0	0	(187,267)	0
Administration	3,173,475	0	295,240	0	(2,878,235)	0
Fiscal	1,082,293	0	0	0	(1,082,293)	0
Business	8,716	0	0	0	(8,716)	0
Operation and Maintenance of Plant	4,732,163	43,926	161,403	22,345	(4,504,489)	0
Pupil Transportation	1,700,045	39,375	44,932	0	(1,615,738)	0
Central	636,196	0	14,400	0	(621,796)	0
Operation of Non-Instructional Services:						
Food Service Operations	1,782,846	373,483	1,463,034	0	53,671	0
Community Services	229,790	0	196,484	0	(33,306)	0
Other	29,260	0	0	0	(29,260)	0
Extracurricular Activities	1,956,794	562,653	44,607	0	(1,349,534)	0
Debt Service:						
Interest and Fiscal Charges	698,603	0	0	0	(698,603)	0
Total	\$ 49,148,660	\$ 3,661,657	\$ 5,916,852	\$ 22,345	(39,547,806)	0
Component Unit						
Massillon Digital Academy	\$ 608,942	\$ 0	\$ 64,372	\$ 0	0	(544,570)
General Revenues						
Property Taxes Levied for:						
General Purposes					11,559,048	0
Debt Service					879,029	0
Capital Outlay					1,208,731	0
Income Taxes Levied for:						
General Purposes					36,171	0
Grants and Entitlements Not Restricted to Specific Programs					23,263,244	774,042
Investment Earnings					39,457	408
Miscellaneous					338,679	4,891
Total General Revenues					37,324,359	779,341
Change in Net Assets					(2,223,447)	234,771
Net Assets Beginning of Year					38,761,424	631,661
Net Assets End of Year					\$ 36,537,977	\$ 866,432

See accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Balance Sheet
Governmental Funds
June 30, 2012

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in Pooled Cash and Investments	\$ 5,184,138	\$ 4,399,527	\$ 9,583,665
Cash and Cash Equivalents in Segregated Accounts	0	96,260	96,260
Investments in Segregated Accounts	0	2,561,974	2,561,974
Receivables:			
Accrued Interest	7,299	0	7,299
Interfund	105,170	0	105,170
Intergovernmental	124,535	992,867	1,117,402
Property Taxes	14,259,187	2,136,245	16,395,432
<i>Total Assets</i>	<u>\$ 19,680,329</u>	<u>\$ 10,186,873</u>	<u>\$ 29,867,202</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 32,167	\$ 340,463	\$ 372,630
Accrued Wages and Benefits	3,473,972	370,609	3,844,581
Contracts Payable	0	40,664	40,664
Intergovernmental Payable	738,850	70,138	808,988
Matured Compensated Absences Payable	165,411	0	165,411
Interfund Payable	0	105,170	105,170
Deferred Revenue	13,465,209	2,522,516	15,987,725
<i>Total Liabilities</i>	<u>17,875,609</u>	<u>3,449,560</u>	<u>21,325,169</u>
Fund Balances			
Restricted	0	7,040,025	7,040,025
Assigned	521,074	0	521,074
Unassigned	1,283,646	(302,712)	980,934
<i>Total Fund Balances</i>	<u>1,804,720</u>	<u>6,737,313</u>	<u>8,542,033</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 19,680,329</u>	<u>\$ 10,186,873</u>	<u>\$ 29,867,202</u>

See accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2012

Total Governmental Fund Balances		\$ 8,542,033
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		39,930,465
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Property Taxes	\$ 2,181,588	
Income Taxes	4,316	
Intergovernmental	<u>681,787</u>	
Total		2,867,691
In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditure is reported when bonds are issued.		285,991
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(32,322)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(11,315,000)	
Capital Appreciation Bonds	(209,995)	
Bond Premium	(913,836)	
Refunding Loss	755,773	
Accretion of Interest - Capital Appreciation Bonds	(161,903)	
Capital Leases	(32,285)	
Vacation Payable	(49,918)	
Compensated Absences	<u>(3,128,717)</u>	
Total		<u>(15,055,881)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$ 36,537,977</u></u>

See accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property and Other Local Taxes	\$ 11,260,101	\$ 1,968,462	\$ 13,228,563
Income Taxes	35,957	0	35,957
Intergovernmental	23,283,481	6,935,992	30,219,473
Investment Income	39,457	22,957	62,414
Tuition and Fees	2,231,588	0	2,231,588
Extracurricular Activities	68,480	478,809	547,289
Rentals	36,641	15,365	52,006
Charges for Services	457,291	373,483	830,774
Contributions and Donations	17,582	88,575	106,157
Miscellaneous	330,219	11,528	341,747
<i>Total Revenues</i>	<u>37,760,797</u>	<u>9,895,171</u>	<u>47,655,968</u>
Expenditures			
Current:			
Instruction:			
Regular	17,116,904	1,556,099	18,673,003
Special	3,882,368	1,326,035	5,208,403
Vocational	1,933,839	35,015	1,968,854
Adult/Continuing	0	46,504	46,504
Student Intervention Services	87,956	103,018	190,974
Other	447,390	399,811	847,201
Support Services:			
Pupils	2,780,137	256,380	3,036,517
Instructional Staff	1,221,049	415,875	1,636,924
Board of Education	187,410	0	187,410
Administration	2,777,782	316,429	3,094,211
Fiscal	1,037,271	50,008	1,087,279
Business	8,109	0	8,109
Operation and Maintenance of Plant	4,289,235	283,026	4,572,261
Pupil Transportation	1,511,854	61,635	1,573,489
Central	625,687	14,400	640,087
Extracurricular Activities	1,073,577	482,178	1,555,755
Operation of Non-Instructional Services:			
Food Service Operations	0	1,809,848	1,809,848
Community Services	0	211,467	211,467
Other	0	29,260	29,260
Debt Service:			
Principal Retirement	60,272	3,305,662	3,365,934
Interest and Fiscal Charges	4,155	2,091,211	2,095,366
Issuance Costs	0	58,895	58,895
<i>Total Expenditures</i>	<u>39,044,995</u>	<u>12,852,756</u>	<u>51,897,751</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,284,198)</u>	<u>(2,957,585)</u>	<u>(4,241,783)</u>
Other Financing Sources (Uses)			
Proceeds from Sale of Capital Assets	5,547	0	5,547
Proceeds of General Obligation Bonds	0	2,425,000	2,425,000
Discount on Debt Issuance	0	(3,068)	(3,068)
<i>Total Other Financing Sources (Uses)</i>	<u>5,547</u>	<u>2,421,932</u>	<u>2,427,479</u>
<i>Net Change in Fund Balance</i>	(1,278,651)	(535,653)	(1,814,304)
<i>Fund Balances Beginning of Year - Restated (See Note 14)</i>	<u>3,083,371</u>	<u>7,272,966</u>	<u>10,356,337</u>
<i>Fund Balances End of Year</i>	<u>\$ 1,804,720</u>	<u>\$ 6,737,313</u>	<u>\$ 8,542,033</u>

See accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012*

Net Change in Fund Balances - Total Governmental Funds \$ (1,814,304)

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

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

Capital Asset Additions	\$ 375,176	
Current Year Depreciation	<u>(2,395,070)</u>	(2,019,894)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (6,460)

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

Property Taxes	418,245	
Income Taxes	214	
Intergovernmental	<u>(1,069,598)</u>	(651,139)

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

General Obligation Bonds	745,000	
Anticipation Notes	2,425,000	
Capital Appreciation Bonds	135,662	
Accreted Interest on Capital Appreciation Bonds	1,619,338	
Capital Leases	<u>60,272</u>	4,985,272

Debt proceeds issued in the governmental funds that increase long-term in the statement of net assets are not reported as revenues.

General Obligation Bonds		(2,425,000)
--------------------------	--	-------------

In the statement of activities, interest is accrued on outstanding bonds, and bond premium and bond issuance costs and the gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.

Accrued Interest Payable	83,670	
Amortization of Issuance Costs	(21,407)	
Amortization of Premium on Bonds	66,866	
Amortization of Refunding Loss	<u>(55,300)</u>	73,829

Some expenses 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.

Compensated Absences	(101,639)	
Vacation Payable	<u>(26,603)</u>	(128,242)

Accretion on capital appreciation bonds is an expenditure in the governmental funds, but is allocated as an expense over the life of the bonds. (237,509)

Change in Net Assets of Governmental Activities \$ (2,223,447)

See accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Property and Other Local Taxes	\$ 12,258,236	\$ 12,430,403	\$ 12,430,403	\$ 0
Income Taxes	21,930	21,930	21,930	0
Intergovernmental	24,160,601	23,782,114	23,283,481	(498,633)
Investment Income	30,617	41,881	41,881	0
Tuition and Fees	1,578,033	2,188,577	2,180,540	(8,037)
Extracurricular Activities	6,742	0	0	0
Rentals	32,154	36,641	36,641	0
Charges for Services	233,046	449,432	457,291	7,859
Contributions and Donations	3,627	10,318	10,318	0
Miscellaneous	69,135	70,065	70,076	11
<i>Total Revenues</i>	<u>38,394,121</u>	<u>39,031,361</u>	<u>38,532,561</u>	<u>(498,800)</u>
Expenditures				
Current:				
Instruction:				
Regular	41,044,480	21,815,899	17,006,503	4,809,396
Special	510,501	5,251,224	4,093,465	1,157,759
Vocational	128,316	2,419,202	1,885,830	533,372
Student Intervention Services	4,865	112,831	87,955	24,876
Other	28,746	589,627	453,069	136,558
Support Services:				
Pupils	431,748	3,723,896	2,936,741	787,155
Instructional Staff	68,353	1,586,171	1,235,689	350,482
Board of Education	12,386	321,110	199,866	121,244
Administration	159,664	3,625,884	2,794,829	831,055
Fiscal	201,223	1,400,265	1,061,221	339,044
Business	449	10,402	8,109	2,293
Operation and Maintenance of Plant	515,858	5,647,578	4,368,409	1,279,169
Pupil Transportation	110,308	2,020,559	1,564,102	456,457
Central	56,926	1,062,144	745,906	316,238
Extracurricular Activities	53,079	1,230,956	959,563	271,393
Operation of Non-Instructional Services:				
Community Services	37	866	675	191
Capital Outlay	222	5,144	4,010	1,134
<i>Total Expenditures</i>	<u>43,327,161</u>	<u>50,823,758</u>	<u>39,405,942</u>	<u>11,417,816</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(4,933,040)</u>	<u>(11,792,397)</u>	<u>(873,381)</u>	<u>10,919,016</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	5,547	5,547	5,547	0
Refund of Prior Year Expenditures	81,859	305,103	305,103	0
Advances In	129,711	129,711	129,711	0
Advances Out	(125,000)	(125,000)	(101,076)	23,924
Transfers Out	(828)	(828)	(828)	0
<i>Total Other Financing Sources (Uses)</i>	<u>91,289</u>	<u>314,533</u>	<u>338,457</u>	<u>23,924</u>
<i>Net Change in Fund Balance</i>	<u>(4,841,751)</u>	<u>(11,477,864)</u>	<u>(534,924)</u>	<u>10,942,940</u>
<i>Fund Balance Beginning of Year - Restated (See Note 14)</i>	3,945,866	3,945,866	3,945,866	0
Prior Year Encumbrances Appropriated	1,118,290	1,118,290	1,118,290	0
<i>Fund Balance End of Year</i>	<u>\$ 222,405</u>	<u>\$ (6,413,708)</u>	<u>\$ 4,529,232</u>	<u>\$ 10,942,940</u>

See accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Investments	\$ 45,051	\$ 108,423
Investments in Segregated Accounts	100,911	0
Intergovernmental Receivable	0	147
<i>Total Assets</i>	145,962	\$ 108,570
Liabilities		
Accounts Payable	0	\$ 226
Intergovernmental Payable	0	287
Undistributed Monies	0	12,789
Due to Students	0	95,268
<i>Total Liabilities</i>	0	\$ 108,570
Net Assets		
Held in Trust for Scholarships	\$ 145,962	

See accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2012

	Private Purpose Trust
Additions	
Gifts and Contributions	\$ 42,000
Investment Earnings	291
	42,291
<i>Total Additions</i>	<i>42,291</i>
Deductions	
Payments in Accordance with Trust Agreements	18,000
	24,291
<i>Change in Net Assets</i>	<i>24,291</i>
<i>Net Assets Beginning of Year</i>	<i>121,671</i>
<i>Net Assets End of Year</i>	<i>\$ 145,962</i>

See accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

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

The School District is located in Stark County and encompasses the entire City of Massillon. It controls the School District’s ten instructional/support facilities, staffed by 220 classified employees, 301 certificated full-time teaching personnel, and 24 administrators, who provide services to 4,169 students and other community members.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization’s governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to, or can otherwise access, the organization’s resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provides financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes.

Discretely Presented Component Unit – The component unit column in the entity-wide financial statements identify the financial data of the School District’s component unit, the Massillon Digital Academy, which is reported separately to emphasize that it is legally separate from the School District.

Massillon Digital Academy – The Massillon Digital Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3313 and 3314 which is operated under the direction of a six-member board of directors. The Academy, under contractual agreement with the School District, is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is to be operated in cooperation with public schools to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses, which are not available locally, and others including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. The Academy, which is part of the state’s education program, is nonsectarian in its programs, admissions policies, employment practices and all other operations.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school. The Academy is fiscally dependent on the School District for all accounting and fiscal purposes and is, therefore, presented as a component unit of the School District. Financial statements can be obtained from the Massillon Digital Academy, 930 17th Street N.E., Massillon, Ohio 44646.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District applies generally accepted accounting principles (GAAP) that were issued prior to November 30, 1989 by the Financial Accounting Standards Board (FASB) to its governmental funds provided they do not conflict with or contradict GASB pronouncements. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. The more significant of the School District's accounting policies are shown below.

A. *Basis of Presentation*

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

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

B. Fund Accounting

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

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

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 School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

The other governmental funds of the School District account for grants and other resources to which the School District is bound to observe constraints imposed upon the use of the resources.

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

C. Measurement Focus

Government-wide Financial Statements- The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenditures) in total net assets.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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.

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the 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 Non-Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Budgetary modifications at this level require a resolution of the Board of Education. The Treasurer has been given the authority to allocate Board appropriations to the function and object levels within each fund.

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

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

F. Cash and Investments

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

During fiscal year 2012, investments were limited to Federal National Mortgage Association notes, Federal Home Loan Bank notes, Federal Home Loan Mortgage Association notes, First American Treasury Market, US Treasury Note, a money market, certificates of deposit and STAROhio.

The School District has segregated bank accounts for monies held separate from the School District's central bank account. These interest bearing depository accounts are presented as "cash and cash equivalents in segregated accounts" and "investments in segregated accounts" since they are not required to be deposited into the School District's treasury. See Note 5, "Deposits and Investments."

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

STAROhio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s share price which is the price the investment could be sold for on June 30, 2012.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$39,457, which includes \$12,091 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as “equity in pooled cash and investments.” Investments with an original maturity of more than three months that are not made from the pool are reported as “investments”.

G. Deferred Charges

On the governmental fund statements, bond issuance costs are recorded as expenditures when incurred. Bond issuance costs are reported as deferred and amortized over the term of the bonds using the straight-line method on the government-wide statements since the results are not significantly different from the bonds outstanding or effective interest methods.

H. Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$500. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 Years
Building and Improvements	20-50 Years
Furniture and Fixtures	8-20 Years
Vehicles	10-15 Years

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

I. Interfund Balances

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

J. Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District’s past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

On the governmental fund statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “matured compensated absences payable” in the funds from which the employee will be paid.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At June 30, 2012, none of the School District’s net assets were restricted by enabling legislation. Net assets restricted for other purposes include instructional activities, grants and extracurricular activities.

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

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

M. Fund Balance Reserves

In accordance with Governmental Accounting Standards Board Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*,” the School District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

N. Interfund Activity

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

P. Estimates

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

NOTE 3: ACCOUNTABILITY AND COMPLIANCE

A. Accountability

Fund balances at June 30, 2012, included the following individual fund deficits:

	<u>Deficit</u>
Nonmajor Special Revenue Funds:	
Public Preschool Grants	\$ 2,670
Title VI-B	127,181
Nutrition Ed	4,161
Adult Communication Education	11,483
Carl Perkins Grant	384
Title I	120,496
Preschool Grants Handicap	54
Title VI-R	36,283

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

B. Compliance

The general fund and permanent improvement fund had final appropriations in excess of the final certificate of estimated resources by \$6,413,708 and \$271,105, respectively. This is contrary to Section 5705.39 of the Ohio Revised Code. Contrary to Section 5705.36(A)(4) the general fund had appropriations exceeding actual resources by \$6,912,509.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Although this violation was not corrected by year-end, management has indicated that appropriations will be closely monitored to prevent future violations.

NOTE 4: BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues and other sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses and other uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Some funds are included in the general fund (GAAP), but have separate legally adopted budgets.
5. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the general fund.

Net Change in Fund Balance

	General
GAAP Basis	\$ (1,278,651)
Net Adjustment for Revenue Accruals	1,352,613
Net Adjustment for Expenditure Accruals	(96,591)
Funds Budgeted Elsewhere **	48,267
Adjustment for Encumbrances	(560,562)
Budget Basis	\$ (534,924)

** As part of Governmental Accounting Standards Board Statement No. 54, “*Fund Balance Reporting*,” certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes uniform school supplies, rotary fund-special services, and public school support funds.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 5: DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those 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 to be deposited or invested in the following securities:

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

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

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

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

According to State law the School District has no deposit policy for custodial risk beyond the requirements of State Statute, public depositories must give security for all uninsured public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2012, the School District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

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

At fiscal year-end, the carrying amount of the School District's deposits was \$2,023,107. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2012, the School District's entire bank balance of \$2,395,141 was covered by Federal Deposit Insurance Corporation. Deposits that are not covered by depository insurance are collateralized with securities held by the pledging financial institution's trust department or agent but not in the School District's name.

Investments

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's investment in repurchase agreements is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the School District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of the securities subject to a repurchase agreement by 2 percent. The School District has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Interest Rate Risk As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the School District's investment policy limits investment portfolio maturities to five years or less. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

As of June 30, 2012, the School District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities			
		6 Months or Less	7 to 12 Months	13 to 18 Months	More Than 24 Months
Federal Home Mortgage Association (FHMA) Notes	\$ 1,876,877	\$ 0	\$ 0	\$ 0	\$ 1,876,877
Federal National Mortgage Association (FNMA) Notes	1,126,645	1,000,819	0	125,826	0
Federal Home Loan Bank (FHLB) Notes	3,917,054	665,482	139,987	3,111,585	0
Federal Home Loan Mortgage (FHLM) Discount	124,994	124,994	0	0	0
Federal Home Loan Mortgage (FHLM) Notes	715,827	715,827	0	0	0
First American Treasury Market	13,699	13,699	0	0	0
U.S Treasury notes	1,063,274	0	638,988	424,286	0
Repurchase Agreements	1,510,000	1,510,000	0	0	0
STAROhio	124,807	124,807	0	0	0
Total Investments	\$ 10,473,177	\$ 4,155,628	\$ 778,975	\$ 3,661,697	\$ 1,876,877

Credit Risk Standard & Poor's has assigned STAROhio an AAAM rating. First American Treasury Market, U. S. Treasury notes, FHMA notes, FNMA notes, FHLB notes, FHLM discounts and FHLM notes were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services. The School District's investments in the federal agency securities that underlie the School District's repurchase agreements were rated Aaa by Moody's Investor Services. STAROhio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAROhio as of June 30, 2012, is 53 days and carries a rating of AAAM by Standard and Poor's. The School District has no investment policy dealing with investment credit risk beyond the requirements in state statutes.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Concentration of Credit Risk The School District places no limit on the amount the School District may invest in any one issuer. The following table includes the percentage to total of each investment type held by the School District at June 30, 2012:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
Federal National Mortgage Association (FNMA) Notes	\$ 1,876,877	17.92%
Federal National Mortgage Association (FNMA) Notes	1,126,645	10.76%
Federal Home Loan Bank (FHLB) Notes	3,917,054	37.41%
Federal Home Loan Mortgage (FHLM) Discounts	124,994	1.19%
Federal Home Loan Mortgage (FHLM) Notes	715,827	6.83%
U. S. Treasury Notes	1,063,274	10.15%
First American Treasury Market	13,699	0.13%
Repurchase Agreements	1,510,000	14.42%
STAROhio	124,807	1.19%
Total	\$ 10,473,177	100.00%

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 6: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>06/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/2012</u>
Governmental Activities				
<i>Capital Assets, Not Being Depreciated:</i>				
Land	\$ 3,552,636	\$ 0	\$ 0	\$ 3,552,636
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	6,372,082	0	0	6,372,082
Buildings and Improvements	55,273,628	0	0	55,273,628
Furniture and Fixtures	10,006,349	375,176	(139,039)	10,242,486
Vehicles	2,555,273	0	(271,545)	2,283,728
<i>Total Capital Assets, Being Depreciated</i>	<u>74,207,332</u>	<u>375,176</u>	<u>(410,584)</u>	<u>74,171,924</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(4,243,538)	(267,570)	0	(4,511,108)
Buildings and Improvements	(22,350,439)	(1,554,461)	0	(23,904,900)
Furniture and Fixtures	(7,473,197)	(433,065)	132,579	(7,773,683)
Vehicles	(1,735,975)	(139,974)	271,545	(1,604,404)
<i>Total Accumulated Depreciation</i>	<u>(35,803,149)</u>	<u>(2,395,070) *</u>	<u>404,124</u>	<u>(37,794,095)</u>
<i>Total Capital Assets, Being Depreciated, Net</i>	<u>38,404,183</u>	<u>(2,019,894)</u>	<u>(6,460)</u>	<u>36,377,829</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 41,956,819</u>	<u>\$(2,019,894)</u>	<u>\$ (6,460)</u>	<u>\$ 39,930,465</u>

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,286,012
Special	74,344
Vocational	113,644
Adult/Continuing	725
Other	11,260
Support Services:	
Pupil	12,729
Instructional Staff	6,962
Administration	4,403
Fiscal	633
Business	607
Operation and Maintenance of Plant	293,067
Pupil Transportation	133,547
Central	559
Operation of Non-Instructional Services:	
Operation of Food Services	8,164
Community Services	22,873
Extracurricular Activities	425,541
Total Depreciation Expense	\$ 2,395,070

NOTE 7: PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011 and are collected in 2012 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phased out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and the tax on telephone and telecommunications property was eliminated in calendar year 2010. The tax was phased out by reducing the assessment rate on the property each year. The bill replaced the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006-2010, the School District was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements are being phased out. On June 30, 2011, House Bill No. 153 was signed into law, which further reduced the amounts of these reimbursements.

The School District receives property taxes from Stark County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2012, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2012 was \$882,208 in the general fund, \$58,210 in the bond retirement debt service fund, \$11,608 in the classroom facilities maintenance special revenue fund and \$101,163 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2011, was \$2,052,510 in the general fund, \$308,367 in the bond retirement debt service fund, and \$25,858 in the classroom facilities maintenance special revenue fund.

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

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$ 401,671,200	94.93%	\$ 401,686,130	94.85%
Public Utility Personal Property	21,455,440	5.07%	21,792,640	5.15%
	<u>\$ 423,126,640</u>	<u>100.00%</u>	<u>\$ 423,478,770</u>	<u>100.00%</u>
Tax rate per \$1,000 assessed valuation	<u>\$ 48.70</u>		<u>\$ 45.70</u>	

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 8: RECEIVABLES

Receivables at June 30, 2012 consisted of taxes, interfund, accrued interest and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All are expected to be received within one year.

NOTE 9: RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the School District contracted with Leonard Insurance/Ohio Casualty for various types of insurance as follows:

<u>Coverage</u>	<u>Amount</u>
General Liability:	
Occurrence	\$ 1,000,000
Aggregate	2,000,000
Umbrella	5,000,000
Buildings and Contents	129,276,410
Automobile Liability	1,000,000

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

B. Employee Health Benefits

The School District participates in the Stark County Schools Council of Governments Health Benefits Program, a shared risk pool (Note 18) to provide employee medical/surgical benefits. The Council is a risk sharing pool created pursuant to State statute for the purpose of carrying out a cooperative program for the provision and administration of health care benefits. The Assembly is the legislative decision-making body of the Council. The Assembly is comprised of the superintendents or executive officers of the members, who have been appointed by the respective governing body of each member.

The intent of the insurance pool is to achieve a reduced, stable and competitive rate for the School District by grouping with other members of the Health Benefits Program. The experience of all participating districts is calculated as one and a common premium rate is applied to all member districts.

Rates are set through an annual calculation process. The School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. For fiscal year 2012 the School District's premiums were \$1,179.27 for family coverage and \$485.45 for single coverage per employee per month. Dental and vision insurance is also provided by the School District to qualified employees through the Stark County Schools Council of Governments. For fiscal year 2012, the School District's cost was \$168.96 and \$68.48 for family coverage and \$35.87 and \$14.44 for single coverage per employee per month, respectively.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Claims are paid for all participants regardless of claims flow. Upon termination, all School District claims would be paid without regard to the School District's account balance. The Stark County Schools Council of Government Board of Directors has the right to return monies to an existing school district subsequent to the settlement of all expenses and claims.

C. Workers' Compensation

The School District participates in the Ohio Association of School Business Officials Group Retrospective Rating Program ("GRRP"). The intent of the GRRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

Each participant continues to pay their own individual premiums and have the opportunity to receive retrospective premium adjustments based upon the combined performance of the GRRP. Depending on that performance, the participating employers can receive either a premium refund or assessment. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the GRRP.

NOTE 10: PENSION PLANS

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System of Ohio ("SERS"), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$910,444, \$478,944 and \$893,513, respectively; 86 percent has been contributed for fiscal year 2012 and 100 percent for the fiscal years 2011 and 2010.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (“STRS Ohio”), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member’s lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District’s required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$2,607,066, \$2,620,077 and \$2,737,175, respectively; 83 percent has been contributed for fiscal year 2012 and 100 percent for the fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$72,389 made by the School District and \$51,706 made by the plan members.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 11: POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, .55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011, and 2010 were \$39,429, \$88,813, and \$290,846, respectively; 86 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation was .75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$53,766, \$30,821, and \$53,135, respectively; 86 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

B. State Teachers Retirement System

Plan Description - The School District contributes to the cost sharing, multiple-employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the financial report of STRS. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$200,544, \$201,544, and \$210,552, respectively; 83 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

NOTE 12: OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. All employees earn three days of personal leave per year. This may not be accumulated. Classified employees earn five to 26 days of vacation per fiscal year, depending upon length of service and position. Vacation days may be accumulated up to a maximum of 26 days. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 313 days for union personnel. Administrators and executive staff may accumulate up to a maximum of 320 days. Upon completion of ten or more years of service to the School District, state, or other political subdivision, and retirement from the profession, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 78 days for certified employees and classified employees; the bargaining unit for the secretarial staff (OAPSE 148) has no maximum days for severance payout.

B. Life Insurance

The School District provides life insurance and accidental death and dismemberment insurance to all employees through the Stark County Schools Council of Governments Health Benefit Plan. Coverage is provided for all certified and classified employees depending on salary, ranging from \$50,000 to \$70,000.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 13: INTERFUND BALANCES

Interfund balances at June 30, 2012 consist of the following individual fund receivables and payables:

Interfund Payable	Interfund Receivable General
<i>Nonmajor Special Revenue Funds:</i>	
Vocational Education	\$ 20
Title I School Improvement	86,159
Nutrition Education	4,161
IDEA Preschool Handicapped	3
Miscellaneous Federal Grants	3,344
Adult Communication Education Fund	11,483
Total	\$ 105,170

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

NOTE 14: RESTATEMENT OF FUND BALANCES

During the year management determined Medicaid reimbursements and related activity were recorded in a special revenue fund and it should have been recorded in the general fund. This restatement has the following immaterial effect on fund balances:

	General	Nonmajor Governmental
Fund Balance Previously Reported at June 30, 2011	\$ 2,924,390	\$ 7,431,947
Medicaid Activity	158,981	(158,981)
Restated Fund Balance at July 1, 2011	\$ 3,083,371	\$ 7,272,966

The reclassification also required the budgetary basis fund balance of the general fund to be restated as follows:

	General
Fund Balance Previously Reported at June 30, 2011	\$ 3,786,885
Medicaid Activity	158,981
Restated Fund Balance at July 1, 2011	\$ 3,945,866

This reclassification did not have an impact on net assets.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 15: LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2012 were as follows:

	Outstanding 6/30/2011	Additions	Deductions	Outstanding 6/30/2012	Due Within One Year
Governmental Activities					
<i>General Obligation Bonds:</i>					
2011 Limited Tax General					
Obligation Various Purpose Bonds:					
\$1,355,000-1.00-3.00% Serial Bonds	\$ 0	\$ 1,355,000	\$ (175,000)	\$ 1,180,000	\$ 140,000
\$1,090,000-3.25-3.75% Term Bonds	0	1,070,000	0	1,070,000	0
2011 Classroom Facilities					
Refunding Bonds:					
\$8,810,000-2.00-4.00% Serial Bonds	8,810,000	0	(215,000)	8,595,000	125,000
\$209,995-2.55-2.8% Capital Appreciation Bonds	209,995	0	0	209,995	0
Accretion on Capital					
Appreciation Bonds	25,444	136,459	0	161,903	0
Unamortized Premium	980,702	0	(66,866)	913,836	0
Refunding Loss	(811,073)	0	55,300	(755,773)	0
2004 Middle School Bonds:					
\$3,565,000-2.00-4.00% Serial Bonds	825,000	0	(355,000)	470,000	375,000
1994 High School Bonds:					
\$919,678-5.10-5.30% Capital Appreciation Bonds	135,662	0	(135,662)	0	0
Accretion on Capital					
Appreciation Bonds	1,518,288	101,050	(1,619,338)	0	0
Total General Obligation Bonds	11,694,018	2,662,509	(2,511,566)	11,844,961	640,000
Other Long-Term Obligations:					
2010 Bond Anticipation Note, 1.75% interest rate , maturing July 2011					
	2,425,000	0	(2,425,000)	0	0
Capital Leases	92,557	0	(60,272)	32,285	32,285
Compensated Absences	3,027,078	170,774	(69,135)	3,128,717	161,836
Total General Long-Term Obligations	\$ 17,238,653	\$ 2,833,283	\$ (5,065,973)	\$ 15,005,963	\$ 834,121

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

2011 Limited Tax General Obligation Various Purpose Bonds

On July 13, 2011, the School District issued \$2,425,000 of limited tax general obligation various purpose bonds, which included serial and term bonds in the amount of \$1,355,000 and \$1,070,000, respectively. Interest rates range from 1.00 to 3.00 percent on the serial bonds and 3.25 to 3.75 percent on the term bonds. They were issued for a fourteen year period with final maturities at December 1, 2025. The bonds refunded \$2,425,000 of outstanding 2010 bond anticipation notes. The bonds were issued for the purchase of buses, installations, modifications and remodeling of school buildings to conserve energy.

2011 Classroom Facilities Refunding General Obligation Bonds

On March 10, 2011, the School District issued \$9,019,995 in voted general obligation bonds, which included serial and capital appreciation (deep discount) bonds in the amount of \$8,810,000 and \$209,995, respectively. The bonds advance refunded \$9,015,000 of outstanding 2003 Classroom Facilities General Obligation Bonds. The bonds were issued for a fifteenth year period and the 2003 bonds were issued for a twenty-three year period with final maturities at December 1, 2025.

At the date of refunding, \$9,844,506 (including premium and after underwriting fees and other issuance costs) was received to pay off old debt. As a result, \$9,015,000 of the 2003 Series Bonds are considered to be defeased and the liability for those bonds has been removed from the 2012 financial statements. The advance refunding reduced cash flows required for debt service by \$424,543 over the next thirteen years and resulted in an economic gain of \$345,154. As of June 30, 2012 the entire amount of defeased bonds were outstanding.

The bonds were issued with a premium of \$1,002,991, which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of the premium for fiscal year 2012 was \$66,866. The issuance costs of \$173,325 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The amortization of the issuance costs for fiscal year 2012 was \$11,555. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$829,506. This difference, reported in the accompanying financial statements as a decrease to bonds payable, is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of this difference for fiscal year 2012 was \$55,300.

The bond issue consists of serial and capital appreciation bonds. The serial bonds were issued with a varying interest rate of 2.0 - 4.0 percent. The bonds that mature on or after December 1, 2021 are subject to prior redemption, by and at the sole option of the School District, in whole or in part as selected by the School District (in whole multiples of \$5,000), on any date on or after December 1, 2020, at a redemption price equal to 100 percent of the principal amount redeemed, plus interest accrued to date.

The capital appreciation bonds will mature on December 1, 2015 and December 1, 2016. These bonds were purchased at a discount at the time of issuance and at maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semi-annually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The maturity amount of the bonds is \$1,230,000. The fiscal year 2012 accretion amount is \$136,459.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

1994 School Improvement Bonds

On January 15, 1994 the School District issued \$18,439,678 in voted general obligation bonds, which included serial and capital appreciation (deep discount) bonds in the amount of \$17,520,000 and \$919,678, respectively. The bonds were used to renovate and improve the high school. They were issued for an eighteen year period with final maturities at December 1, 2011.

The capital appreciation bonds matured December 1, 2007 through December 1, 2011. These bonds were purchased at a discount at the time of issuance and at maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semi-annually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The maturity amount of the bonds is \$8,785,000. The fiscal year 2012 accretion amount is \$101,050.

2004 Various Purpose Improvement Bonds

On January 15, 2004, the School District issued \$11,800,000 in voted general obligation bonds, which included serial and term bonds in the amount of \$3,565,000 and \$8,235,000, respectively. The bonds were used to purchase land and construct a new middle school. They were issued for a twenty-two year period with final maturities at December 1, 2025.

The issuance costs of \$226,593 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The amortization of the issuance costs for fiscal year 2012 was \$9,852.

Bond Anticipation Notes

On July 29, 2010 the School District issued \$2,425,000 in bond anticipation notes to provide funds for the purchase of buses, installations, modifications and remodeling of school buildings to conserve energy. The notes were retired on July 28, 2011.

The general obligation bonds will be paid from the bond retirement debt service fund. Capital leases will be paid from the general fund. Compensated absences will be paid from the general fund and the food service fund.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The following is a summary of the School District's annual debt service principal and interest payments on debt outstanding at June 30, 2012:

Fiscal Year Ending June 30,	General Obligation Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 640,000	\$ 365,493	\$ 0	\$ 0	\$ 640,000	\$ 365,493
2014	700,000	348,562	0	0	700,000	348,562
2015	715,000	333,812	0	0	715,000	333,812
2016	150,000	325,162	119,476	475,524	269,476	800,686
2017	150,000	325,162	90,519	544,481	240,519	869,643
2018-2022	4,405,000	1,271,670	0	0	4,405,000	1,271,670
2023-2026	4,555,000	371,515	0	0	4,555,000	371,515
Total	<u>\$11,315,000</u>	<u>\$ 3,341,376</u>	<u>\$ 209,995</u>	<u>\$ 1,020,005</u>	<u>\$ 11,524,995</u>	<u>\$ 4,361,381</u>

NOTE 16: CAPITAL LEASES

During 2005, the School District entered into a capitalized lease for a telephone system. This lease meets the criteria of a capital lease as defined by generally accepted accounting standards, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

Capital assets acquired by the leases have been capitalized in the amount of \$459,311. This amount represents the present value of the minimum lease payments at the time of acquisition. Capital lease payments will be reclassified and reflected as debt service expenditures on the fund financial statements for the governmental funds. These expenditures are reflected as support service expenditures on the budgetary basis in the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2012.

Fiscal Year Ended June 30, 2013	<u>Amount</u>
	\$ 33,733
Less: amount representing interest	<u>1,448</u>
Present value of net minimum lease payments	<u>\$ 32,285</u>

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 17: JOINTLY GOVERNED ORGANIZATION

The Stark Portage Area Computer Consortium (SPARCC) is a jointly governed organization among 31 school districts, the Stark County Educational Service Center and the Portage County Educational Service Center and the Portage County Education Service Center. The purpose of the organization is to apply modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The legislative and advisory body is the assembly which is comprised of the superintendents of the participating schools. The degree of control exercised by any participating district is limited to its representation on the assembly, which appoints the five-member executive board. The executive board exercises total control over the operation of SPARCC including budgeting, appropriating, contracting and designating management. The executive board consists of five superintendents. All revenues are generated from State funding and an annual fee charged to participating districts. The School District paid \$89,651 to SPARCC during the fiscal year 2012. The Stark County Educational Service Center is the fiscal agent of SPARCC. Financial information can be obtained by writing to the Stark County Educational Service Center, 2100 38th Street NW, Canton, OH 44709-2300.

NOTE 18: PUBLIC ENTITY RISK POOL

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

NOTE 19: CONTINGENCIES

A. Review of Statewide Attendance Data

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

B. Grants

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

C. Litigation

The School District is not party to any claims or lawsuits that would, in the School District's opinion, have a material effect of the basic financial statements.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 20: SET-ASIDE CALCULATIONS

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

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

	Capital Improvements
Set-Aside Restricted Balance as of June 30, 2011	\$ 0
Current Year Set-Aside Requirement	687,288
Current Year Qualifying Disbursements	(481,772)
Current Year Offsets	(293,985)
Totals	\$ (88,469)
Balance Carried Forward to Future Fiscal Years	\$ 0
Set-Aside Restricted Balance as of June 30, 2012	\$ 0

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

NOTE 21: RELATED PARTY TRANSACTIONS

During 2012, the School District provided accounting and fiscal services to the Massillon Digital Academy (the “Digital Academy”), a discretely presented component unit of the School District. The School District acts as the Sponsor for the Academy. The School District and the Academy entered into a 5-year sponsorship agreement commencing on the first day of the 2007 academic year whereby terms of the sponsorship were established. Pursuant to this agreement, the School District’s treasurer serves as the Academy’s fiscal officer. The School District is to be paid an initial payment of \$25,000 and \$150 per student per year for various services by the Academy; however, the School District waived the \$150 per student for fiscal year 2012.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 22: FUND BALANCE

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other funds are presented as follows:

	General	Other Governmental Funds	Total
Restricted for:			
Debt Service	\$ 0	\$ 845,025	\$ 845,025
Capital Outlay	0	3,044,176	3,044,176
Other Purposes	0	508,513	508,513
Classroom Facilities Maintenance	0	2,035,062	2,035,062
Student Activities Programs	0	588,622	588,622
Federally Funded Programs	0	11,767	11,767
State Funded Programs	0	6,860	6,860
Total Restricted	<u>0</u>	<u>7,040,025</u>	<u>7,040,025</u>
Assigned for:			
Subsequent Years Appropriations	9,600	0	9,600
Encumbrances:			
Instruction	243,885	0	243,885
Support Services	267,589	0	267,589
Total Assigned	<u>521,074</u>	<u>0</u>	<u>521,074</u>
Unassigned	1,283,646	(302,712)	980,934
<i>Total Fund Balance</i>	<u><u>\$ 1,804,720</u></u>	<u><u>\$ 6,737,313</u></u>	<u><u>\$ 8,542,033</u></u>

NOTE 23: MASSILLON DIGITAL ACADEMY

The Massillon Digital Academy (the “Digital Academy”) has been determined to be a discretely presented component unit. The School District Management has determined it is significant; therefore, it has been included as part of the School District’s basic financial statements. The Digital Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Massillon Digital Academy, 930 17th Street N.E., Massillon, Ohio 44646.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

A. Significant Accounting Policies

Accounting Basis The Digital Academy applies generally accepted accounting principles (GAAP) that were issued prior to November 30, 1989 by the Financial Accounting Standards Board (FASB) to its governmental funds provided they not conflict with or contradict GASB pronouncements. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. The Academy also has the option to apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Academy has elected not to apply these FASB Statements and Interpretations. The more significant of the Academy's accounting policies are shown below.

Basis of Presentation Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The statement of cash flows reflects how the Digital Academy finances and meets its cash flow needs.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Digital Academy's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which the Digital Academy receives values without directly giving equal value in return, such as grants and entitlements, are 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 Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Digital Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

Budget Process Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Digital Academy's contract with its sponsor. The contract between the Digital Academy and its Sponsor does not prescribe a budgetary process for the Digital Academy.

Cash and Cash Equivalents Cash held by the Digital Academy is reflected as "Cash and Cash Equivalents with Fiscal Agent" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During 2012, the Academy had no investments.

Intergovernmental Revenues The Digital Academy currently participates in the State Foundation Program. Revenue received from this program is recognized as operation revenues (foundation payments) in the accounting period in which they are earned and become measurable.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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 Digital Academy must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the Digital Academy on a reimbursement basis.

The Digital Academy also participates in several state and federal grant programs. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statements.

Amounts received under the grant programs for the year ended June 30, 2012 was \$64,372.

Capital Assets and Depreciation 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 Digital Academy maintains a capitalization threshold of five hundred dollars. The Digital Academy does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Capital leases are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Furniture and equipment is depreciated over a period of five to eight years.

Net Assets Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Digital Academy had unrestricted net assets of \$768,178 and \$72,449 of restricted net assets at year end. The Digital Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating Revenues and Expenses Operating revenues are those revenues that are generated directly from the primary activity of the Digital Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Digital Academy. All revenues and expenses not meeting this definition are reported as non-operating.

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

Extraordinary and Special Items Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended 2012.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

B. Deposits

At June 30, 2012 the carrying amount of the Digital Academy's deposits was \$785,233 and the bank balance was \$800,799. At year-end, \$550,799 of the Digital Academy's bank balance was exposed to custodial risk while \$250,000 was covered by Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance 07/01/2011	Additions	Disposals	Balance 06/30/2012
Furniture	\$ 2,646	\$ 0	\$ 0	\$ 2,646
Computer Equipment	205,319	23,396	0	228,715
Less: Accumulated Depreciation	(202,675)	(2,881)	0	(205,556)
Total Capital Assets, Net	\$ 5,290	\$ 20,515	\$ 0	\$ 25,805

D. Fiscal Officer

The sponsorship agreement states the Treasurer of the Massillon City School District shall serve as the Fiscal Officer of the Digital Academy.

The Treasurer of Massillon City School District shall perform the following functions while serving as the fiscal officer of the Digital Academy:

- A. Maintain the financial records of the Digital Academy in conformance with generally accepted accounting principles as required by the State Auditor;
- B. Comply with the operating policies recommended by the State Auditor, including those related to the presentation, review, discussion, and approval or rejection of a line item budget and regular reports of current and encumbered expense;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

E. Related Party Transactions

The Digital Academy is a component unit of the Massillon City School District (the “School District”). The School District is the Academy’s sponsor. The Digital Academy and the School District entered into a 5-year sponsorship agreement commencing on the first day of the 2008 academic year, whereby terms of the sponsorship were established. Pursuant to this agreement, the School District’s treasurer serves as the Digital Academy’s fiscal officer. The Digital Academy is required to pay \$150 per student per year to the School District, from funding provided to the Academy by the Ohio Department of Education pursuant to Section 3314.08 of the Ohio Revised Code. The Sponsor has not requested payment of the \$150 per student since the Academy’s inception. The Sponsor realizes that the survival of the Academy’s existence rests on the operational funds provided through the State Foundation program.

F. Purchased Services

For the year ended June 30, 2012, purchased service expenses were recognized for professional services rendered by various vendors as follows:

Massillon Board of Education	\$ 444,892
SPARCC	77,305
Verizon	54,606
Other	17,080
Total Purchased Services	<u>\$ 593,883</u>

For the year ended June 30, 2012, the Academy recognized \$444,892 in expenses for educational services and curriculum provided by the Massillon Board of Education.

G. Contingencies

Review of Statewide Attendance Data

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

Grants

The Academy received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. This also encompasses the Auditor of State’s ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2012, if applicable, cannot be determined at this time.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Litigation

The Academy is not party to any claims or lawsuits that would, in the School District's opinion, have a material effect of the basic financial statements.

Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. Upon final review of the state funding in 2012 it was found that the State over paid the Academy by \$1,015. This amount was recorded as an intergovernmental payable as of June 30, 2012.

H. Risk Management

The Digital Academy 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. For the year ended 2012, the Digital Academy contracted with the Ohio Casualty Insurance Company through its agent Leonard Insurance Services of Canton, Ohio. Settlements have not exceeded coverage in any of the last three years. There has not been a significant reduction in coverage from the prior year.

NOTE 24: SIGNIFICANT ENCUMBRANCES

Outstanding encumbrances for governmental funds include \$511,474 for the general fund and \$872,845 in nonmajor governmental funds.

NOTE 25: SUBSEQUENT EVENTS

On November 6, 2012, the School District's voters approved an 8.1 mill property tax levy for general operations. This levy is expected to raise approximately \$3.4 million per year.

December 29, 2012

To the Board of Education
Massillon City School District
Stark County, Ohio
930 17th Street NE
Massillon, Ohio 44646

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Massillon City School District, Stark County, Ohio (the "School District") as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Massillon City School District
Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards
December 29, 2012
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as items 2012-001 and 2012-002.

We noted certain matters that we reported to management of the School District in a separate letter dated December 29, 2012.

The School District's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit the School District's response and, accordingly, we express no opinion on it.

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

Rea & Associates, Inc.

December 29, 2012

To the Board of Education
Massillon City School District
Stark County, Ohio
930 17th Street NE
Massillon, Ohio 44646

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of Massillon City School District, Stark County, Ohio (the "School District") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying *Schedule of Findings and Questioned Costs* as item 2012-003.

Internal Control Over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying *Schedule of Findings and Questioned Costs* as item 2012-003. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The School District's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit the School District's responses and, accordingly, we express no opinion on them.

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

Rea & Associates, Inc.

Massillon City School District
Stark County, Ohio
Schedule of Expenditures of Federal Awards - Cash Basis
For the Year Ended June 30, 2012

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Year	Cash Receipts	Cash Disbursements
U. S. Department of Education				
<i>Passed Through Ohio Department of Education:</i>				
<i>Title I Cluster:</i>				
Title I	84.010	2011	\$ 38,645	\$ 38,870
Title I	84.010	2012	1,076,321	1,162,480
ARRA - Title I	84.389	2011	0	7,350
Total Title I Cluster			1,114,966	1,208,700
21st Century Community Learning Centers	84.287	2011	3,235	3,235
21st Century Community Learning Centers	84.287	2012	388,296	391,615
Total 21st Century Community Learning Centers			391,531	394,850
Title II-A - Improving Teacher Quality	84.367	2012	240,221	240,221
<i>Special Education Cluster:</i>				
ARRA - IDEA Part B	84.391	2011	143,464	143,871
IDEA Part B	84.027	2011	5,055	5,008
IDEA Part B	84.027	2012	944,074	942,358
Total IDEA Part B			1,092,593	1,091,237
Early Childhood Special Education	84.173	2012	11,809	11,812
ARRA - Early Childhood Special Education	84.392	2011	453	453
Total Early Childhood Special Education			12,262	12,265
Total Special Education Cluster			1,104,855	1,103,502
Safe and Drug-Free Schools	84.186	2012	9,242	9,242
Carl D. Perkins Career and Technical Education Grant	84.048	2012	85,840	85,860
ARRA - State Fiscal Stabilization Fund	84.394	2011	0	5,899
Education Jobs	84.410	2012	1,130,591	1,130,591
Adult Education and Family Literacy Grant	84.002	2011	1,243	1,243
Adult Education and Family Literacy Grant	84.002	2012	66,787	78,270
Total Adult Education and Family Literacy Grants			68,030	79,513
<i>Total U.S. Department of Education</i>			\$ 4,145,276	\$ 4,258,378
U. S. Department of Agriculture				
<i>Passed Through the Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
School Breakfast Program (B)	10.553	2012	297,427	297,427
National School Lunch Program (Food Distribution) (A)	10.555	2012	80,069	80,069
National School Lunch Program (B)	10.555	2012	1,235,067	1,235,067
Total National School Lunch Program			1,315,136	1,315,136
Total Child Nutrition Cluster			1,612,563	1,612,563
<i>Total U.S. Department of Agriculture</i>			1,612,563	1,612,563
U. S. Department of Health and Human Services				
<i>Passed Through the Ohio Department of MRDD:</i>				
Student Intervention TANF Demonstration Project	93.558	2011	0	697
<i>Total U.S. Department of Health and Human Services</i>			0	697
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 5,757,839	\$ 5,871,638

**Massillon City School District
Stark County, Ohio**

*Notes to the Schedule of Expenditures of Federal Awards – Cash Basis
For the Fiscal Year Ended June 30, 2012*

Note A - Food Donation Program

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance and related expenditures are reported in this schedule at the value of the commodities received as assessed by the U.S. Department of Agriculture (entitlement value).

Note B –Child Nutrition Cluster

Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

Note C - Transfers

The School District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education’s (ODE) approval, a School District can transfer unspent Federal assistance to the succeeding year, thus allowing the School District a total of 27 months to spend the assistance. During fiscal year 2012, the ODE authorized the following transfers:

<u>CFDA</u>	<u>GRANT TITLE</u>	<u>GRANT YEAR</u>	<u>TRANSFER</u>	
			<u>IN</u>	<u>OUT</u>
84.010	Title I	2012	\$ 310,737	
84.010	Title I	2011		\$ 310,737
84.027	Special Education IDEA Part B	2012	8,070	
84.027	Special Education IDEA Part B	2011		8,070

Massillon City School District
Stark County, Ohio
Schedule of Findings and Questioned Costs
OMB Circular A-133, Section .505
June 30, 2012

1. SUMMARY OF AUDITOR'S RESULTS
--

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Were there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	Yes
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	Yes
(d) (1) (vii)	Major Programs (list):	Special Education Cluster (ARRA) CFDA #84.027, #84.173, #84.391 and #84.392 Nutrition Cluster CFDA #10.553 and #10.555 Education Jobs CFDA #84.410
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

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

Material Non-Compliance

Finding Number	2012-001
-----------------------	-----------------

Criteria: Ohio Rev. Code section 5705.39 states that total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there from, as certified by the budget commission. No appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official certificate or amended official certificate. When the appropriation does not exceed such official certificate, the county auditor shall give such certificate forthwith upon receiving from the appropriating authority a certified copy of the appropriation measure. Appropriations shall be made from each fund only for the purposes for which such fund is established.

Condition: The School District had final appropriations exceeding the certificate of estimated resources for the following funds:

Fund	Total Estimated Resources	Final Appropriations	Excess
General	\$ 43,417,588	\$ 49,831,296	\$ 6,413,708
Permanent Improvement	617,945	889,050	271,105

Cause: The Board certified the final appropriation measure in excess of estimated resources on June 27, 2012 that was prepared in error.

Potential Effect: Failure to monitor budgetary expenditures and appropriations could result in unauthorized expenditures.

Recommendation: We recommend the School District monitor appropriations to estimated resources in all funds which are legally required to be budgeted, to ensure compliance with the above requirement. This comparison should be compared on a regular basis and any time either certificate of estimated resources or appropriations are modified.

Official's Response: The Treasurer's Office will monitor budgets regularly to ensure they are properly prepared and will continue to make amendments when necessary.

Material Non-Compliance

Finding Number	2012-002
-----------------------	-----------------

Criteria: Ohio Rev. Code Section 5705.36(A)(4) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

Condition: The School District had final appropriations exceeding actual resources (beginning unencumbered fund balance + actual receipts) in the general fund:

<u>Fund</u>	<u>Actual Resources</u>	<u>Appropriations</u>	<u>Excess</u>
General	\$ 42,918,788	\$ 49,831,297	\$ 6,912,509

Cause: The Board certified the final appropriation measure in excess of actual resources on June 27, 2012 that was prepared in error.

Potential Effect: The School District certified the final appropriations in error and thus caused the appropriations to exceed actual resources at fiscal year-end.

Recommendation: We recommend the School District monitor their budget on a continual basis throughout the year, ensuring that certificates of estimated resources are amended appropriately.

Official's Response: The School District will continue to monitor its budget more closely and to submit additional amendments for estimated resources more frequently throughout the fiscal year and at fiscal year-end.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

Finding Number	2012-003
CFDA Title and Number	Child Nutrition Cluster – CFDA #10.553, #10.555
Federal Award Number / Year	2012
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Questioned Cost / Noncompliance / Significant Deficiency – Eligibility

Criteria: 7 CFR part 245.3(a) states that each State agency, shall by July 1 of each year announce family-size income standards to be used by local educational agencies, as defined in §245.2, under the jurisdiction of such State agency, in making eligibility determinations for free or reduced price meals and for free milk. Such family size income standards for free and reduced price meals and for free milk shall be in accordance with Income Eligibility Guidelines published by the Department by notice in the Federal Register.

Finding Number	2012-003 (Continued)
-----------------------	----------------------

42 U.S.C. § 1758(b)(1) states the income guidelines for determining eligibility for free lunches shall be 130 percent of the applicable family size income levels contained in the nonfarm income poverty guidelines prescribed by the Office of Management and Budget, as adjusted annually in accordance with subparagraph (B). The income guidelines for determining eligibility for reduced price lunches for any school year shall be 185 percent of the applicable family size income levels contained in the nonfarm income poverty guidelines prescribed by the Office of Management and Budget, as adjusted annually in accordance with subparagraph (B).

Condition/Context: During testing of certain free and reduced lunch applications, 2 out of 45 applications tested were improperly awarded free lunches rather than being reduced lunches.

Effect: As a result, the District's federal Nutrition Cluster reimbursement was overstated. This overstatement resulted in actual questioned costs totaling \$357 and immaterial likely questioned costs over \$10,000.

Recommendation: Going forward, the School District should implement procedures to help reduce the risk that a child's free or reduced lunch status is improperly determined or verified, through proper training of employees who handle the data entry at all the School District's buildings.

Official's Response / Corrective Action: Beginning in the FY13 audit period, the application process will be performed by an experienced employee designated by the Food Service Coordinator. This will help to generate consistencies and efficiencies in the approval process with the expectations that this will eliminate any ongoing issues.

Massillon City School District
Stark County, Ohio
Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2012

**Not Corrected, Partially
Corrected, Significantly
Different Corrective Action Taken
or Finding No Longer Valid
(Explain)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid (Explain)
2011-001	Individuals were given benefits that were not in accordance with the eligibility requirements of the National School Lunch Program - CFDA #10.555	No	See finding 2012-003
2011-002	Cash Management in regards to the SFSF and spending within month end on the advances received.	Yes	

This page intentionally left blank.



Dave Yost • Auditor of State

MASSILLON CITY SCHOOL DISTRICT

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 14, 2013**