



**Mary Taylor, CPA**  
Auditor of State



**CITY OF MASSILLON  
STARK COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Honorable Mayor and City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Massillon, Stark County, Ohio (the City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Massillon, Stark County, Ohio, as of December 31, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19, during the year ended December 31, 2007, the City reported infrastructure used in governmental activities acquired prior to 2003 and since 1980 in accordance with *Governmental Accounting Standards Board* Statement No. 34 resulting in the restatement of capital and net assets as of January 1, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



**Mary Taylor, CPA**  
Auditor of State

September 5, 2008

**City of Massillon, Ohio**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2007**  
**Unaudited**

The discussion and analysis of the City of Massillon's (the "City") financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2007. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements and notes to enhance their understanding of the City's financial performance.

**Financial Highlights**

Key financial highlights for 2007 are as follows:

- The total net assets of the City increased \$455,789. Net assets of governmental activities decreased \$315,035, which represents a 1.2% decrease from fiscal year 2006. Net assets of business-type activities increased \$770,824 or 5.3% from fiscal year 2006.
- General revenues from governmental activities accounted for \$17,893,516, or 69.2% of total governmental activities revenue. Program specific revenues accounted for \$7,976,575 or 30.8% of total governmental activities revenue.
- Governmental activities net capital assets decreased \$844,226, primarily due to current year depreciation expense and the disposal of capital assets.
- The City restated governmental net assets in the amount of \$8,962,187, due to 2007 being the phase in year for recording infrastructure under the Governmental Accounting Standards Board Statement No. 34. The City also restated business-type net assets in the amount of \$4,569,450 for infrastructure.
- The City issued \$2,569,998 in general obligation bonds for the completion of the Lincoln Center project which was previously financed with bond anticipation notes.
- The general fund, the City's largest major fund, had revenues of \$16,182,255 in 2007, or 62.9% of total governmental funds. Expenditures of the general fund were \$15,418,476, or 52.3% of total governmental funds. The general fund balance decreased \$363,653 in 2007, or 18.5%, over 2006.

**Using this Annual Financial Report**

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

**City of Massillon, Ohio**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2007**  
**Unaudited**

**Reporting the City as a Whole**

***Statement of Net Assets and Statement of Activities***

While this document contains a number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and helps to answer the question, "How did we do financially during 2007?" These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, whether the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions and other factors.

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

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

**Reporting the City's Most Significant Funds**

***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are divided into three categories: governmental, proprietary and fiduciary funds. Fund financial reports provide detailed information about the activities within the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the general fund and the Lincoln Center bond retirement debt service fund. An analysis of the City's major governmental funds begins on page 10.



**City of Massillon, Ohio**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2007**  
**Unaudited**

***Governmental Funds***

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

Data from the other nonmajor governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 18-22 of this report.

***Proprietary Funds***

The City maintains two different types of proprietary funds. Enterprise wastewater, solid waste, and golf course funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Since they use the same basis of accounting as business-type activities, these fund statements will essentially match the information provided in statements for the City as a whole. Internal service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for a self-funded dental and vision benefits insurance program for employees of the City. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 23-25 of this report.

***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting method used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 26-27 of this report.

***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 28-55 of this report.

**City of Massillon, Ohio**  
**Management's Discussion and Analysis**  
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**Government-Wide Financial Analysis**

The statement of net assets provides the perspective of the City as a whole. Table 1 below provides a summary of the City's net assets for 2007 compared to 2006:

**Table 1**  
**Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>Restated 2006</u>	<u>2007</u>	<u>Restated 2006</u>	<u>2007</u>	<u>Restated 2006</u>
<u>Assets:</u>						
Current and other assets	\$ 15,197,150	\$ 16,357,269	\$ 5,858,881	\$ 6,054,561	\$ 21,056,031	\$ 22,411,830
Capital assets	<u>39,584,997</u>	<u>40,429,223</u>	<u>53,920,115</u>	<u>55,486,890</u>	<u>93,505,112</u>	<u>95,916,113</u>
Total assets	<u>54,782,147</u>	<u>56,786,492</u>	<u>59,778,996</u>	<u>61,541,451</u>	<u>114,561,143</u>	<u>118,327,943</u>
<u>Liabilities:</u>						
Other liabilities	3,842,787	4,113,563	1,034,716	1,117,654	4,877,503	5,231,217
Long-term liabilities outstanding	<u>25,439,129</u>	<u>26,857,663</u>	<u>43,516,458</u>	<u>45,966,799</u>	<u>68,955,587</u>	<u>72,824,462</u>
Total liabilities	<u>29,281,916</u>	<u>30,971,226</u>	<u>44,551,174</u>	<u>47,084,453</u>	<u>73,833,090</u>	<u>78,055,679</u>
<u>Net assets:</u>						
Invested in capital assets, net of related debt	19,761,541	19,500,092	16,153,820	15,224,923	35,915,361	34,725,015
Restricted for:						
Capital projects	1,079,166	653,391	-	-	1,079,166	653,391
Debt service	1,417,235	2,353,338	-	-	1,417,235	2,353,338
Other purpose	721,905	758,667	-	-	721,905	758,667
Transportation	1,103,206	999,172	-	-	1,103,206	999,172
Economic development	3,487,194	3,376,781	-	-	3,487,194	3,376,781
Parks and recreation	26,366	135,274	-	-	26,366	135,274
Unrestricted	<u>(2,096,382)</u>	<u>(1,961,449)</u>	<u>(925,998)</u>	<u>(767,925)</u>	<u>(3,022,380)</u>	<u>(2,729,374)</u>
Total net assets	<u>\$ 25,500,231</u>	<u>\$ 25,815,266</u>	<u>\$ 15,227,822</u>	<u>\$ 14,456,998</u>	<u>\$ 40,728,053</u>	<u>\$ 40,272,264</u>

**City of Massillon, Ohio**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2007**  
**Unaudited**

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2007, the City's assets exceeded liabilities by \$40,728,053. This amounts to \$25,500,231 in governmental activities and \$15,227,822 in business-type activities. Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 81.6% of total governmental and business-type assets. Capital assets include land, land improvements, buildings, vehicles, machinery and equipment and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2007, were \$35,915,361. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. A portion of the City's net assets, \$7,835,072 or 19.2%, represent resources that are subject to external restrictions on how they may be used. The largest portion of the total restricted net assets consists of \$1,417,235, \$1,103,206 and \$3,487,194 which are restricted for debt service, transportation and economic development, respectively.

Table 2 below shows the changes in net assets for fiscal year 2007 compared to 2006.

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Revenues</b>						
Program revenues:						
Charges for services and sales	\$ 3,733,000	\$ 3,584,860	\$ 9,571,065	\$ 9,570,693	\$ 13,304,065	\$ 13,155,553
Operating grants, contributions, and interest	3,661,285	3,360,343	-	-	3,661,285	3,360,343
Capital grants and contributions	582,290	2,570,785	134,286	24,000	716,576	2,594,785
General revenues:						
Property and other taxes	2,573,130	2,042,407	-	-	2,573,130	2,042,407
Municipal income taxes	12,774,960	12,812,575	195,000	-	12,969,960	12,812,575
Grants and entitlements	1,267,005	1,590,423	-	-	1,267,005	1,590,423
Investment earnings	454,885	711,832	-	-	454,885	711,832
Miscellaneous	823,536	508,179	61,507	127,289	885,043	635,468
Gain on sale of capital assets	-	185,226	-	-	-	185,226
Total revenues	<u>25,870,091</u>	<u>27,366,630</u>	<u>9,961,858</u>	<u>9,721,982</u>	<u>35,831,949</u>	<u>37,088,612</u>

(Continued)

**City of Massillon, Ohio**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2007**  
**Unaudited**

**Table 2**  
**Changes in Net Assets (Continued)**

	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Program Expenses</b>						
Governmental Activities:						
General government	5,911,745	5,697,504	-	-	5,911,745	5,697,504
Security of persons and property	9,640,662	9,825,252	-	-	9,640,662	9,825,252
Public health and welfare	598,937	635,543	-	-	598,937	635,543
Basic utility services	104,718	118,388	-	-	104,718	118,388
Leisure time activities	3,120,281	2,823,931	-	-	3,120,281	2,823,931
Economic development and assistance	759,047	784,674	-	-	759,047	784,674
Transportation	3,841,256	3,781,503	-	-	3,841,256	3,781,503
Urban redevelopment and housing	260,164	186,465	-	-	260,164	186,465
Other	598,175	420,526	-	-	598,175	420,526
Interest and fiscal charges	1,350,141	1,403,437	-	-	1,350,141	1,403,437
Business-type Activities:						
Wastewater	-	-	7,314,299	6,093,007	7,314,299	6,093,007
Solid waste	-	-	989,610	1,012,985	989,610	1,012,985
Golf course	-	-	887,125	1,046,379	887,125	1,046,379
Total program expenses	<u>26,185,126</u>	<u>25,677,223</u>	<u>9,191,034</u>	<u>8,152,371</u>	<u>35,376,160</u>	<u>33,829,594</u>
Change in net assets	<u>\$ (315,035)</u>	<u>\$ 1,689,407</u>	<u>\$ 770,824</u>	<u>\$ 1,569,611</u>	<u>\$ 455,789</u>	<u>\$ 3,259,018</u>

**Governmental Activities**

Governmental activities net assets decreased \$315,035 in 2007. The funding for governmental activities comes from several different sources, with municipal income tax being the largest contributor. Income tax revenues decreased by \$37,615 or .03% which is reflective of the local economy. The City's governmental expenses increased \$507,903 or 2.0%.

Security of persons and property, which primarily supports the operations of the City's police, fire and emergency medical services, accounted for \$9,640,662 of expenses, or 36.8% of total governmental expenses of the City. These expenses were funded by \$1,629,463 in charges to users of services and operating grants. General government expenses, which primarily include legislative, executive and financial management, totaled \$5,911,745 or 22.6% of total governmental expenses. General government expenses were covered by \$1,061,621 of direct charges to users, grants and entitlements, contributions and interest.

Charges for services program revenues contributed to the City's governmental revenues with \$3,733,000 or 14.3% of program expenses. All program revenues covered 30.5% of program expenses with general revenues being less than adequate and leaving a decrease in net assets of \$315,035.

**City of Massillon, Ohio**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2007**  
**Unaudited**

General revenues totaled \$17,893,516, and amounted to 69.2% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$15,348,090, or 85.8% of these total general revenues. The other primary source of general revenues is grants and entitlements not restricted to specific programs, with local government, and local government revenue assistance making up a majority of the \$1,267,005 or 7.1%, of the total general revenues.

***Business-Type Activities***

The wastewater, solid waste, and golf course funds are the City's enterprise funds. These programs had program revenues of \$9,705,351 and expenses of \$9,191,034 for fiscal year 2007. Business-type activities reported a change in net assets of \$770,824 which was an increase of 5.3% from 2006. This increase was possible with an increase in certain user fees.

Expenses in the wastewater fund increased by \$1,221,292 over 2006. This increase was significant and mainly attributed to increased costs related to various contractual services and supplies and materials used by the City.

***Program Expenses***

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

The negative amounts shown in Table 3 are indicative of whether a particular function of government relies on general revenues for financing or is a net contributor of resources to the general government. The positive amount shown for the economic development and assistance program in 2007 is due to the community development grant received from the State for future development projects.

**City of Massillon, Ohio**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2007**  
**Unaudited**

**Table 3**  
**Program Expenses**

	<u>2007</u>		<u>2006</u>		<u>Net Change</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
<b>Governmental Activities:</b>						
General government	\$ 5,911,745	\$ (4,850,124)	\$ 5,697,504	\$ (4,513,549)	\$ 214,241	\$ (336,575)
Security of persons and property	9,640,662	(8,011,199)	9,825,252	(8,341,238)	(184,590)	330,039
Public health and welfare	598,937	(311,595)	635,543	(356,785)	(36,606)	45,190
Basic utility services	104,718	(2,148)	118,388	(25,825)	(13,670)	23,677
Leisure time activities	3,120,281	(1,602,704)	2,823,931	(1,474,689)	296,350	(128,015)
Economic development and assistance	759,047	129,197	784,674	(26,908)	(25,627)	156,105
Transportation	3,841,256	(1,538,016)	3,781,503	406,736	59,753	(1,944,752)
Urban redevelopment and housing	260,164	(73,656)	186,465	(5,152)	73,699	(68,504)
Other	598,175	(598,165)	420,526	(420,388)	177,649	(177,777)
Interest and fiscal charges	1,350,141	(1,350,141)	1,403,437	(1,403,437)	(53,296)	53,296
<b>Business-type Activities:</b>						
Wastewater treatment	7,314,299	795,127	6,093,007	1,657,436	1,221,292	(862,309)
Solid waste	989,610	5,302	1,012,985	(36,609)	(23,375)	41,911
Golf course	887,125	(286,112)	1,046,379	(178,505)	(159,254)	(107,607)
<b>Total expenses</b>	<b>\$ 35,376,160</b>	<b>\$ (17,694,234)</b>	<b>\$ 33,829,594</b>	<b>\$ (14,718,913)</b>	<b>\$ 1,546,566</b>	<b>\$ (2,975,321)</b>

The dependence upon general revenues for governmental activities is apparent, with 68.3% of expenses supported through taxes and other general revenues.

**Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The general fund is the operating fund of the City. At the end of the fiscal year, the fund balance of the general fund was \$1,607,042, an 18.5% decrease from prior year. The primary reason for the decrease of the general fund balance in 2007 was attributed to a decrease in intergovernmental revenue and an increase in expenditures in every function except debt service. The overall increase in expenditures as compared to 2006 was \$1,080,168. The fund balance of the Lincoln Center bond retirement debt service fund reported a decrease of \$425,207 in 2007. This decrease was caused primarily from debt service payments.

**City of Massillon, Ohio**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2007**  
**Unaudited**

Table 4 below reports year 2007 balances compared to 2006:

**Table 4**  
**Change in Fund Balance**

	Fund Balance		Increase (Decrease)	Percent Change
	December 31, 2007	December 31, 2006		
General	\$ 1,607,042	\$ 1,970,695	\$ (363,653)	-18.5%
Lincoln Center Bond Retirement	4,146	429,353	(425,207)	-99.0%
Other Governmental Funds	6,582,212	6,843,030	(260,818)	-3.8%
	<u>\$ 8,193,400</u>	<u>\$ 9,243,078</u>	<u>\$ (1,049,678)</u>	

Table 5 below assists in illustrating the financial activities for the general fund of year 2007 balances compared to 2006:

**Table 5**  
**Change in Financial Activities for the General Fund**

	December 31, 2007	December 31, 2006	Increase (Decrease)	Percent Change
<u>Revenues:</u>				
Property and other taxes	\$ 1,859,175	\$ 1,675,429	\$ 183,746	11.0%
Municipal income tax	10,311,713	9,874,712	437,001	4.4%
Charges for services	358,245	410,780	(52,535)	-12.8%
Licenses, and permits	271,985	270,582	1,403	0.5%
Fines and forfeitures	1,237,232	1,257,214	(19,982)	-1.6%
Intergovernmental	1,521,485	1,722,912	(201,427)	-11.7%
Special assessments	-	9,682	(9,682)	-100.0%
Investment income	387,985	504,078	(116,093)	-23.0%
Other	234,435	250,307	(15,872)	-6.3%
Total revenue	<u>\$ 16,182,255</u>	<u>\$ 15,975,696</u>	<u>\$ 206,559</u>	
<u>Expenditures:</u>				
Current:				
General government	5,644,084	4,961,913	682,171	13.7%
Security of persons and property	8,128,703	7,868,955	259,748	3.3%
Public health and welfare	360,002	354,924	5,078	1.4%
Transportation	753,876	695,742	58,134	8.4%
Other	503,876	388,911	114,965	29.6%
Capital outlay	-	39,928	(39,928)	-100.0%
Debt service:				
Principal retirement	26,060	24,693	1,367	5.5%
Interest and fiscal charges	1,875	3,242	(1,367)	-42.2%
Total expenditures	<u>\$ 15,418,476</u>	<u>\$ 14,338,308</u>	<u>\$ 1,080,168</u>	

**City of Massillon, Ohio**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2007**  
**Unaudited**

**Budgeting Highlights - General Fund**

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

The most significant budgeted governmental fund is the general fund. The final budget (estimated) revenue exceeded the original estimated revenue by \$714,338. The most significant variance between original budgeted revenue and final budgeted revenue amounts was to property and other taxes revenue. Final amounts came in ahead of the original budgeted amount by \$617,592 this was due to conservative budgeting. Overall, total revenues equaled the final estimated revenue. During the year, these estimates were changed as new information was made available.

Final budgeted expenditures increased \$1,063,919 or 7.2% over the original budgeted amounts. This increase was adjusted along with the estimated resources that are anticipated to be available. Budgeted expenditures are not allowed to exceed estimated resources that are certified by the County Auditor. As additional resources are identified the certification is amended and budgeted expenditures can be adjusted accordingly. Actual expenditures and encumbrances were under the final budget by \$174,100.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2007, the City had \$93,505,112 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings, vehicles, machinery and equipment, and infrastructure. Of this total, \$39,584,997 was reported in governmental activities and \$53,920,115 was reported in business-type activities. Table 6 below reports fiscal year 2007 balances compared to 2006:

**Table 6**  
**Capital Assets, at Fiscal Year End**  
**(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006
Land	\$ 8,539,291	\$ 8,539,291	\$ 3,052,637	\$ 3,052,637	\$ 11,591,928	\$ 11,591,928
Construction in progress	-	1,378,515	-	-	-	1,378,515
Land improvements	2,570,336	2,655,934	740,348	842,345	3,310,684	3,498,279
Buildings	9,198,093	9,556,555	2,667,745	2,865,404	11,865,838	12,421,959
Vehicles	1,225,990	1,274,790	600,053	679,393	1,826,043	1,954,183
Machinery and equipment	1,049,196	1,217,998	512,413	655,846	1,561,609	1,873,844
Infrastructure	<u>17,002,091</u>	<u>15,806,140</u>	<u>46,346,919</u>	<u>47,391,265</u>	<u>63,349,010</u>	<u>63,197,405</u>
Total	<u>\$ 39,584,997</u>	<u>\$ 40,429,223</u>	<u>\$ 53,920,115</u>	<u>\$ 55,486,890</u>	<u>\$ 93,505,112</u>	<u>\$ 95,916,113</u>



**City of Massillon, Ohio**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended December 31, 2007**  
**Unaudited**

The most significant change in fiscal year 2007 to the total amount of capital assets was to infrastructure for governmental activities and business-type activities. For governmental activities, the decrease of \$844,226 was primarily due to the current year depreciation expense being greater than the change in capital assets from new acquisitions and the disposal of old assets. For business-type activities, the most significant decrease was due primarily from current year depreciation expense. See Note 8 to the basic financial statements for detail on governmental and business-type activities capital assets.

**Debt Administration**

At December 31, 2007 the City had total long-term obligations outstanding of \$66,346,008. Of this total, \$3,460,724 is due within one year and \$62,885,284 is due in more than one year. Table 7 below summarizes the bonds and loans outstanding:

**Table 7**  
**Outstanding Debt, at Fiscal Year End**

	Governmental Activities		Business-Type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General obligation bonds	\$ 19,019,544	\$ 16,900,545	\$ 7,001,990	\$ 7,325,058	\$ 26,021,534	\$ 24,225,603
Unamortized items	-	-	(162,854)	(193,159)	(162,854)	(193,159)
Bond anticipation notes	-	2,993,000	-	-	-	2,993,000
Special obligation debt	69,750	209,250	14,069	14,069	83,819	223,319
Loans payable	2,376,762	2,455,673	35,897,658	37,826,476	38,274,420	40,282,149
Other obligations	<u>1,820,370</u>	<u>1,872,487</u>	<u>308,719</u>	<u>476,886</u>	<u>2,129,089</u>	<u>2,349,373</u>
Total	<u>\$ 23,286,426</u>	<u>\$ 24,430,955</u>	<u>\$ 43,059,582</u>	<u>\$ 45,449,330</u>	<u>\$ 66,346,008</u>	<u>\$ 69,880,285</u>

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

At December 31, 2007 the City's overall legal debt margin was \$41,981,848 with an unvoted debt margin of \$12,837,491. The City's credit rating remained unchanged in 2007 as compared to 2006. See Note 12 to the basic financial statements for details on the City's long-term obligations.

**Current Issues Affecting Financial Condition**

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

In fiscal year 2008 the City will continue to upgrade various infrastructure improvements.

**Contacting the City's Financial Management**

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

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**City of Massillon, Ohio**  
**Statement of Net Assets**  
**December 31, 2007**

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 3,618,479	\$ 3,664,367	\$ 7,282,846
Cash and cash equivalents:			
In segregated accounts	54	-	54
Receivables:			
Property and other taxes	2,233,178	-	2,233,178
Income tax	2,422,073	-	2,422,073
Accounts	955,245	1,940,749	2,895,994
Due from other governments	1,667,465	-	1,667,465
Special assessments	9,045	198,397	207,442
Accrued interest	703,133	-	703,133
Internal balances	61,000	(61,000)	-
Prepaid items	2,098	3,154	5,252
Materials and supplies inventory	149,968	9,218	159,186
Loans receivable	19,035	-	19,035
Notes receivable	3,356,377	-	3,356,377
Deferred charges	-	103,996	103,996
Nondepreciable capital assets	8,539,291	3,052,637	11,591,928
Depreciable capital assets, net	31,045,706	50,867,478	81,913,184
Total assets	<u>54,782,147</u>	<u>59,778,996</u>	<u>114,561,143</u>
<u>Liabilities:</u>			
Accounts payable	589,402	831,294	1,420,696
Accrued wages and benefits	331,758	53,790	385,548
Income tax refunds payable	13,207	-	13,207
Due to other governments	1,047,529	149,224	1,196,753
Deferred revenue	1,688,616	-	1,688,616
Accrued interest payable	168,388	408	168,796
Claims payable	3,887	-	3,887
Long-term liabilities:			
Due within one year	1,110,747	2,585,963	3,696,710
Due in more than one year	24,328,382	40,930,495	65,258,877
Total liabilities	<u>29,281,916</u>	<u>44,551,174</u>	<u>73,833,090</u>
<u>Net assets:</u>			
Invested in capital assets, net of related debt	19,761,541	16,153,820	35,915,361
Restricted for:			
Capital projects	1,079,166	-	1,079,166
Debt service	1,417,235	-	1,417,235
Other purposes	721,905	-	721,905
Transportation	1,103,206	-	1,103,206
Economic development	3,487,194	-	3,487,194
Parks and recreation	26,366	-	26,366
Unrestricted	(2,096,382)	(925,998)	(3,022,380)
Total net assets	<u>\$ 25,500,231</u>	<u>\$ 15,227,822</u>	<u>\$ 40,728,053</u>

See accompanying notes to the basic financial statements.

**City of Massillon, Ohio**  
**Statement of Activities**  
**For the Year Ended December 31, 2007**

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants, Contributions and Interest</u>	<u>Capital Grants and Contributions</u>
<u>Governmental Activities:</u>				
General government	\$ 5,911,745	\$ 1,037,621	\$ 24,000	\$ -
Security of persons and property	9,640,662	1,383,704	245,759	-
Public health and welfare	598,937	154,305	133,037	-
Basic utility services	104,718	-	102,570	-
Leisure time activities	3,120,281	1,106,039	411,538	-
Economic development and assistance	759,047	-	888,244	-
Transportation	3,841,256	51,321	1,669,629	582,290
Urban redevelopment and housing	260,164	-	186,508	-
Other	598,175	10	-	-
Interest and fiscal charges	1,350,141	-	-	-
Total governmental activities	<u>26,185,126</u>	<u>3,733,000</u>	<u>3,661,285</u>	<u>582,290</u>
<u>Business-Type Activities:</u>				
Wastewater treatment	7,314,299	7,975,140	-	134,286
Solid waste	989,610	994,912	-	-
Golf course	887,125	601,013	-	-
Total business-type activities	<u>9,191,034</u>	<u>9,571,065</u>	<u>-</u>	<u>134,286</u>
Total primary government	<u>\$ 35,376,160</u>	<u>\$ 13,304,065</u>	<u>\$ 3,661,285</u>	<u>\$ 716,576</u>

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

Change in net assets  
Net assets at beginning of year, as restated  
Net assets at end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (4,850,124)	\$ -	\$ (4,850,124)
(8,011,199)	-	(8,011,199)
(311,595)	-	(311,595)
(2,148)	-	(2,148)
(1,602,704)	-	(1,602,704)
129,197	-	129,197
(1,538,016)	-	(1,538,016)
(73,656)	-	(73,656)
(598,165)	-	(598,165)
<u>(1,350,141)</u>	<u>-</u>	<u>(1,350,141)</u>
<u>(18,208,551)</u>	<u>-</u>	<u>(18,208,551)</u>
-	795,127	795,127
-	5,302	5,302
-	<u>(286,112)</u>	<u>(286,112)</u>
-	<u>514,317</u>	<u>514,317</u>
<u>\$ (18,208,551)</u>	<u>\$ 514,317</u>	<u>\$ (17,694,234)</u>
1,734,289	-	1,734,289
524,799	-	524,799
314,042	-	314,042
10,268,229	-	10,268,229
616,069	-	616,069
1,890,662	195,000	2,085,662
1,267,005	-	1,267,005
454,885	-	454,885
<u>823,536</u>	<u>61,507</u>	<u>885,043</u>
<u>17,893,516</u>	<u>256,507</u>	<u>18,150,023</u>
(315,035)	770,824	455,789
<u>25,815,266</u>	<u>14,456,998</u>	<u>40,272,264</u>
<u>\$ 25,500,231</u>	<u>\$ 15,227,822</u>	<u>\$ 40,728,053</u>

**City of Massillon, Ohio**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2007**

	General	Lincoln Center Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in pooled cash and cash equivalents	\$ 432,749	\$ 4,146	\$ 3,171,150	\$ 3,608,045
Cash and cash equivalents:				
In segregated accounts	-	-	54	54
Receivables:				
Property and other taxes	1,468,142	-	765,036	2,233,178
Income taxes	1,917,556	-	504,517	2,422,073
Accounts	228,403	-	726,842	955,245
Due from other governments	607,233	-	1,060,232	1,667,465
Special assessments	6,918	-	2,127	9,045
Accrued interest	29,363	-	673,770	703,133
Interfund	210,000	-	20,000	230,000
Prepaid items	2,098	-	-	2,098
Materials and supplies inventory	146,881	-	3,087	149,968
Loans receivable	-	-	19,035	19,035
Notes receivable	-	-	3,356,377	3,356,377
Total assets	<u>\$ 5,049,343</u>	<u>\$ 4,146</u>	<u>\$ 10,302,227</u>	<u>\$ 15,355,716</u>
<u>Liabilities:</u>				
Accounts payable	\$ 153,560	\$ -	\$ 435,842	\$ 589,402
Accrued wages and benefits	283,149	-	48,609	331,758
Income tax refunds payable	13,207	-	-	13,207
Due to other governments	543,636	-	503,893	1,047,529
Interfund payable	-	-	169,000	169,000
Deferred revenue	2,448,749	-	2,562,671	5,011,420
Total liabilities	<u>3,442,301</u>	<u>-</u>	<u>3,720,015</u>	<u>7,162,316</u>
<u>Fund Balances:</u>				
Reserved for encumbrances	37,296	-	586,233	623,529
Reserved for loans receivable	-	-	19,035	19,035
Reserved for notes receivable	-	-	3,356,377	3,356,377
Unreserved:				
Undesignated, reported in:				
General fund	1,569,746	-	-	1,569,746
Special revenue funds	-	-	1,464,352	1,464,352
Debt service fund	-	4,146	271,783	275,929
Capital projects funds	-	-	884,432	884,432
Total fund balances	<u>1,607,042</u>	<u>4,146</u>	<u>6,582,212</u>	<u>8,193,400</u>
Total liabilities and fund balances	<u>\$ 5,049,343</u>	<u>\$ 4,146</u>	<u>\$ 10,302,227</u>	<u>\$ 15,355,716</u>

See accompanying notes to the basic financial statements.

**City of Massillon, Ohio**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**December 31, 2007**

Total governmental fund balances \$ 8,193,400

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 39,584,997

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

Property and other taxes	\$ 272,499	
Municipal income taxes	811,738	
Investment income	670,829	
Intergovernmental	928,686	
Special assessments	9,045	
Charges for services and other	630,007	
Total		3,322,804

Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds (168,388)

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 6,547

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

General obligation bonds	\$ (18,974,997)	
Accretion on capital appreciation bonds	(44,547)	
Loans payable	(2,376,762)	
Police and fire past service cost	(1,498,423)	
Special obligation debt	(69,750)	
Capital leases payable	(321,947)	
Compensated absences	(2,152,703)	
Total		(25,439,129)

Net assets of governmental activities \$ 25,500,231

See accompanying notes to the basic financial statements.

**City of Massillon, Ohio**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2007**

	General	Lincoln Center Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Property other taxes	\$ 1,859,175	\$ -	\$ 652,772	\$ 2,511,947
Municipal income taxes	10,311,713	-	2,518,172	12,829,885
Charges for services	358,245	-	1,112,950	1,471,195
Licenses and permits	271,985	-	105,041	377,026
Fines and forfeitures	1,237,232	-	611,663	1,848,895
Intergovernmental	1,521,485	-	3,539,728	5,061,213
Investment income	387,985	-	104,794	492,779
Contributions and donations	-	-	83,569	83,569
Other	234,435	118,037	677,400	1,029,872
<b>Total revenues</b>	<b>16,182,255</b>	<b>118,037</b>	<b>9,406,089</b>	<b>25,706,381</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	5,644,084	-	250,130	5,894,214
Security of persons and property	8,128,703	-	1,512,270	9,640,973
Public health and welfare	360,002	-	244,889	604,891
Basic utility services	-	-	104,718	104,718
Leisure time activities	-	-	2,731,893	2,731,893
Economic development and assistance	-	-	753,487	753,487
Transportation	753,876	-	2,233,710	2,987,586
Urban redevelopment and housing	-	-	260,164	260,164
Other	503,876	92,249	4,087	600,212
Capital outlay	-	-	728,570	728,570
<b>Debt service:</b>				
Principal retirement	26,060	3,233,000	604,854	3,863,914
Interest and fiscal charges	1,875	102,513	1,214,834	1,319,222
<b>Total expenditures</b>	<b>15,418,476</b>	<b>3,427,762</b>	<b>10,643,606</b>	<b>29,489,844</b>
<b>Excess of revenues over (under) expenditures</b>	<b>763,779</b>	<b>(3,309,725)</b>	<b>(1,237,517)</b>	<b>(3,783,463)</b>
<b>Other financing sources (uses):</b>				
Inception of capital lease	-	-	163,787	163,787
General obligation bonds issued	-	2,569,998	-	2,569,998
Transfers in	-	314,520	812,912	1,127,432
Transfers out	(1,127,432)	-	-	(1,127,432)
<b>Total other financing sources (uses)</b>	<b>(1,127,432)</b>	<b>2,884,518</b>	<b>976,699</b>	<b>2,733,785</b>
<b>Net change in fund balances</b>	<b>(363,653)</b>	<b>(425,207)</b>	<b>(260,818)</b>	<b>(1,049,678)</b>
Fund balances at beginning of year	1,970,695	429,353	6,843,030	9,243,078
<b>Fund balances at end of year</b>	<b>\$ 1,607,042</b>	<b>\$ 4,146</b>	<b>\$ 6,582,212</b>	<b>\$ 8,193,400</b>

See accompanying notes to the basic financial statements.



**City of Massillon, Ohio**

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2007**

Net change in fund balances - Total governmental funds \$ (1,049,678)

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

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

In the current period, these amounts are:

Net capital asset additions	\$ 862,986	
Depreciation expense	<u>(1,698,812)</u>	
Excess of net depreciation expense over capital asset additions		(835,826)

The proceeds from the sale of capital assets are reported as a source of financing in the governmental funds. However, the cost of the capital assets sold is removed from the capital assets account in the statement of net assets and offset against the sales proceeds resulting in a gain or loss on the disposal of capital assets in the statement of activities. Thus, more revenue is reported in the governmental funds than in the statement of activities. (8,400)

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

Property and other taxes	\$ 61,181	
Municipal income taxes	(54,926)	
Investment income	(13,867)	
Intergovernmental revenue	(8,335)	
Special assessments	(665)	
Miscellaneous	<u>45,906</u>	
Net change in deferred revenues during the year		29,294

Repayment of principal of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 3,892,315

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

Decrease in compensated absences	\$ 274,005	
Interest accreted on capital appreciation debt	(14,001)	
Increase in accrued interest	<u>(16,918)</u>	
Total additional expenditures		243,086

The internal service fund used by management to charge the costs of dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. 147,959

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

Bonds issued (2,569,998)

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. (163,787)

Change in net assets of governmental activities \$ (315,035)

See accompanying notes to the basic financial statements.

**City of Massillon, Ohio**  
**Statement of Revenues, Expenditures and Changes in Fund Balance-**  
**Budget (Non-GAAP Basis) and Actual**  
**General Fund**  
**For the Year Ended December 31, 2007**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property and other taxes	\$ 1,247,430	\$ 1,865,022	\$ 1,865,022	\$ -
Municipal income taxes	10,234,748	10,401,998	10,401,998	-
Charges for services	373,000	347,622	347,622	-
Licenses and permits	262,915	264,407	264,407	-
Fines and forfeitures	1,250,130	1,249,010	1,249,010	-
Intergovernmental	1,624,084	1,616,756	1,616,757	1
Payments in the lieu of taxes	9,400	3,486	3,486	-
Investment income	442,446	408,407	408,407	-
Other	203,000	204,783	204,783	-
<b>Total revenues</b>	<b>15,647,153</b>	<b>16,361,491</b>	<b>16,361,492</b>	<b>1</b>
<u>Expenditures:</u>				
Current:				
General government	5,812,844	5,952,192	5,875,222	76,970
Security of persons and property	7,356,515	8,223,002	8,130,780	92,222
Public health and welfare	354,454	354,105	352,721	1,384
Transportation	731,501	802,122	799,134	2,988
Other	444,735	432,547	432,011	536
<b>Total expenditures</b>	<b>14,700,049</b>	<b>15,763,968</b>	<b>15,589,868</b>	<b>174,100</b>
<b>Excess of revenues over expenditures</b>	<b>947,104</b>	<b>597,523</b>	<b>771,624</b>	<b>174,101</b>
<u>Other financing sources (uses):</u>				
Transfers in	5,000	2,076	2,076	-
Transfers out	(1,131,000)	(1,127,432)	(1,127,432)	-
Advances out	-	(140,000)	(140,000)	-
<b>Total other financing sources (uses)</b>	<b>(1,126,000)</b>	<b>(1,265,356)</b>	<b>(1,265,356)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(178,896)</b>	<b>(667,833)</b>	<b>(493,732)</b>	<b>174,101</b>
Fund balances at beginning of year	303,885	303,885	303,885	-
Prior year encumbrances appropriated	326,321	326,321	326,321	-
<b>Fund balances at end of year</b>	<b>\$ 451,310</b>	<b>\$ (37,627)</b>	<b>\$ 136,474</b>	<b>\$ 174,101</b>

See accompanying notes to the basic financial statements.

**City of Massillon, Ohio**  
**Statement of Fund Net Assets**  
**Proprietary Funds**  
**December 31, 2007**

	Business-Type Activities				Governmental Activities - Internal Service Fund
	Wastewater	Golf Course	Solid Waste	Total	
<b>Assets:</b>					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 3,382,813	\$ 12,076	\$ 269,478	\$ 3,664,367	\$ 10,434
Receivables:					
Accounts	1,910,749	1,834	28,166	1,940,749	-
Interfund	-	-	29,000	29,000	-
Special assessments	198,397	-	-	198,397	-
Materials and supplies inventory	9,218	-	-	9,218	-
Prepays	1,577	1,577	-	3,154	-
<b>Total current assets</b>	<b>5,502,754</b>	<b>15,487</b>	<b>326,644</b>	<b>5,844,885</b>	<b>10,434</b>
Non-current assets:					
Deferred charges	-	103,996	-	103,996	-
Capital assets:					
Land	59,400	2,993,237	-	3,052,637	-
Depreciable capital assets, net	48,771,395	1,796,599	299,484	50,867,478	-
<b>Total non-current assets</b>	<b>48,830,795</b>	<b>4,893,832</b>	<b>299,484</b>	<b>54,024,111</b>	<b>-</b>
<b>Total assets</b>	<b>54,333,549</b>	<b>4,909,319</b>	<b>626,128</b>	<b>59,868,996</b>	<b>10,434</b>
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable	712,164	104,555	14,575	831,294	-
Accrued wages and benefits	40,413	1,802	11,575	53,790	-
Compensated absences payable	29,833	8,314	-	38,147	-
Due to other governments	100,282	14,452	34,490	149,224	-
Interfund payable	-	90,000	-	90,000	-
Accrued interest payable	408	-	-	408	-
Claims payable	-	-	-	-	3,887
Capital leases payable	115,135	40,494	-	155,629	-
General obligation bonds payable	160,000	205,000	-	365,000	-
OWDA loans payable	2,027,187	-	-	2,027,187	-
<b>Total current liabilities</b>	<b>3,185,422</b>	<b>464,617</b>	<b>60,640</b>	<b>3,710,679</b>	<b>3,887</b>
Long-term liabilities:					
Compensated absences payable	315,945	8,766	94,018	418,729	-
Unamortized discount on bonds	-	(50,012)	-	(50,012)	-
Unamortized cost of refunding	-	(112,842)	-	(112,842)	-
Special obligation payable	-	14,069	-	14,069	-
Capital leases payable, net of current portion	56,090	97,000	-	153,090	-
OWDA loans payable, net of current portion	33,870,471	-	-	33,870,471	-
General obligation bonds payable, net of current portion	-	6,636,990	-	6,636,990	-
<b>Total long-term liabilities</b>	<b>34,242,506</b>	<b>6,593,971</b>	<b>94,018</b>	<b>40,930,495</b>	<b>-</b>
<b>Total liabilities</b>	<b>37,427,928</b>	<b>7,058,588</b>	<b>154,658</b>	<b>44,641,174</b>	<b>3,887</b>
<b>Net assets:</b>					
Invested in capital assets, net of related debt	17,645,446	(1,791,110)	299,484	16,153,820	-
Unrestricted	(739,825)	(358,159)	171,986	(925,998)	6,547
<b>Total net assets</b>	<b>\$ 16,905,621</b>	<b>\$ (2,149,269)</b>	<b>\$ 471,470</b>	<b>\$ 15,227,822</b>	<b>\$ 6,547</b>

See accompanying notes to the basic financial statements.

**City of Massillon, Ohio**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended December 31, 2007**

	Business-Type Activities			Total	Governmental Activities - Internal Service Fund
	Wastewater	Golf Course	Solid Waste		
<u>Operating revenues:</u>					
Charges for services	\$ 7,975,140	\$ 601,013	\$ 994,912	\$ 9,571,065	\$ 162,357
Other	44,831	13,776	2,900	61,507	-
Total operating revenue	<u>8,019,971</u>	<u>614,789</u>	<u>997,812</u>	<u>9,632,572</u>	<u>162,357</u>
<u>Operating expenses:</u>					
Personal services	1,617,060	244,519	497,434	2,359,013	-
Fringe benefits	608,328	63,168	209,246	880,742	-
Contractual services	1,806,941	127,304	169,790	2,104,035	1,166
Supplies and materials	1,189,311	219,200	67,622	1,476,133	-
Claims	-	-	-	-	13,232
Other operating costs	354	-	363	717	-
Depreciation	1,575,236	187,025	45,155	1,807,416	-
Total operating expenses	<u>6,797,230</u>	<u>841,216</u>	<u>989,610</u>	<u>8,628,056</u>	<u>14,398</u>
Operating income (loss)	<u>1,222,741</u>	<u>(226,427)</u>	<u>8,202</u>	<u>1,004,516</u>	<u>147,959</u>
<u>Non-operating revenues (expenses):</u>					
Municipal income tax	-	195,000	-	195,000	-
Interest and fiscal charges	(517,069)	(45,909)	-	(562,978)	-
Total non-operating revenues (expenses):	<u>(517,069)</u>	<u>149,091</u>	<u>-</u>	<u>(367,978)</u>	<u>-</u>
Income (loss) before contributions	<u>705,672</u>	<u>(77,336)</u>	<u>8,202</u>	<u>636,538</u>	<u>147,959</u>
Capital contributions	134,286	-	-	134,286	-
Change in net assets	839,958	(77,336)	8,202	770,824	147,959
Net assets at beginning of year, as restated	<u>16,065,663</u>	<u>(2,071,933)</u>	<u>463,268</u>	<u>14,456,998</u>	<u>(141,412)</u>
Net assets at end of year	<u>\$ 16,905,621</u>	<u>\$ (2,149,269)</u>	<u>\$ 471,470</u>	<u>\$ 15,227,822</u>	<u>\$ 6,547</u>

See accompanying notes to the basic financial statements.

**City of Massillon, Ohio**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2007**

	Business-Type Activities				Governmental
	Wastewater	Golf Course	Solid Waste	Total	Activities - Internal Service Fund
Cash flows from operating activities:					
Cash received from customers	\$ 8,257,201	\$ 599,179	\$ 986,983	\$ 9,843,363	\$ 162,357
Cash received from other operating sources	44,831	15,558	2,900	63,289	-
Cash payments for employee services and benefits	(2,208,497)	(339,979)	(744,614)	(3,293,090)	-
Cash payments to suppliers for goods and services	(3,090,715)	(226,170)	(229,070)	(3,545,955)	(180,527)
Net cash provided by (used for) operating activities	<u>3,002,820</u>	<u>48,588</u>	<u>16,199</u>	<u>3,067,607</u>	<u>(18,170)</u>
Cash flows from noncapital financing activities:					
Advances to other funds	-	-	(29,000)	(29,000)	-
Net cash provided by (used for) noncapital financing activities	<u>-</u>	<u>-</u>	<u>(29,000)</u>	<u>(29,000)</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Cash received from municipal income tax	-	195,000	-	195,000	-
Proceeds of loans	69,372	-	-	69,372	-
Principal payments on notes and bonds	(160,000)	(195,000)	-	(355,000)	-
Interest payments on notes and bonds	(9,040)	-	-	(9,040)	-
Principal payments on capital leases	(129,541)	(38,626)	-	(168,167)	-
Principal payment on loans	(1,998,190)	-	-	(1,998,190)	-
Interest payments on loans	(508,389)	-	-	(508,389)	-
Acquisition of capital assets	(106,355)	-	-	(106,355)	-
Net cash provided by (used for) capital and related financing activities	<u>(2,842,143)</u>	<u>(38,626)</u>	<u>-</u>	<u>(2,880,769)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	160,677	9,962	(12,801)	157,838	(18,170)
Cash and cash equivalents at beginning of year	<u>3,222,136</u>	<u>2,114</u>	<u>282,279</u>	<u>3,506,529</u>	<u>28,604</u>
Cash and cash equivalents at end of year	<u>\$ 3,382,813</u>	<u>\$ 12,076</u>	<u>\$ 269,478</u>	<u>\$ 3,664,367</u>	<u>\$ 10,434</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ 1,222,741	\$ (226,427)	\$ 8,202	\$ 1,004,516	\$ 147,959
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	1,575,236	187,025	45,155	1,807,416	-
Change in assets and liabilities:					
(Increase) decrease in assets:					
Accounts receivable	275,385	(52)	(7,929)	267,404	-
Materials and supplies inventory	(4,257)	17,771	-	13,514	-
Special assessments	6,676	-	-	6,676	-
Prepaid items	(1,577)	(1,577)	-	(3,154)	-
Increase (decrease) in liabilities:					
Accounts payable	(84,946)	104,140	6,403	25,597	(169,722)
Accrued wages	7,937	(801)	2,485	9,621	-
Compensated absences	7,333	(27,115)	(40,811)	(60,593)	-
Due to other governments	(1,708)	(4,376)	2,694	(3,390)	-
Claims payable	-	-	-	-	3,593
Net cash provided by (used for) operating activities	<u>\$ 3,002,820</u>	<u>\$ 48,588</u>	<u>\$ 16,199</u>	<u>\$ 3,067,607</u>	<u>\$ (18,170)</u>
Non-cash capital and related financing activities:					
Capital contribution	\$ 134,286	\$ -	\$ -	\$ 134,286	\$ -

See accompanying notes to the basic financial statements.

**City of Massillon, Ohio**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**December 31, 2007**

	Private Purpose Trust	Agency
<u>Assets:</u>		
Assets:		
Equity in pooled cash and cash equivalents	\$ 30,349	\$ 48,734
Cash and cash equivalents:		
In segregated accounts	-	123,860
Receivables:		
Property and other taxes	-	756,511
Accounts	1,672	46,124
Due from other governments	-	14,043
Total assets	<u>\$ 32,021</u>	<u>\$ 989,272</u>
<u>Liabilities:</u>		
Accounts payable	-	6,650
Deposits held and due to others	32,021	-
Due to other governments	-	893,154
Undistributed monies	-	89,468
Total liabilities	<u>\$ 32,021</u>	<u>\$ 989,272</u>
<u>Net assets:</u>		
Held in trust for other purposes	<u>\$ -</u>	

See accompanying notes to the basic financial statements.

**City of Massillon, Ohio**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year Ended December 31, 2007**

	<u>Private Purpose Trust</u>
<u>Additions:</u>	
Receipt of unclaimed money	<u>\$ 7,161</u>
<u>Deductions:</u>	
Monies escheated	<u>7,161</u>
Change in net assets	-
Net assets at beginning of year	-
Net assets at end of year	<u><u>\$ -</u></u>

See accompanying notes to the basic financial statements.

**CITY OF MASSILLON, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**1. DESCRIPTION OF THE CITY AND REPORTING ENTITY**

The City of Massillon (the "City") was first incorporated by the Act of the State Legislature (the Act) as a town in 1838 under the Constitution of 1802. The Act establishing its incorporation was repealed in 1845 and Massillon was without municipal incorporation until March 10, 1853, when, under the provisions of the general act, it was incorporated as a village. Massillon has grown to a city of approximately 31,700 inhabitants, covering approximately 18.709 square miles. The City has a Mayor-Council form of government with three members of council elected at large and six others elected from separate wards for two-year terms. The Mayor is Chief Executive and Administrative Officer of the City and has a term of four years.

**Reporting Entity**

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

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

The City is associated with the Stark Council of Governments, the Stark Area Regional Transit Authority, Stark County Tax Incentive Review Council, and Stark County Regional Planning Commission which are defined as Jointly Governed Organizations and the Local Organized Governments in Cooperation, which is defined as a Joint Venture. These organizations are presented in Note 16 to the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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



**CITY OF MASSILLON, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**A. Basis of Accounting**

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

**Government-wide Financial Statements**

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

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

**Fund Financial Statements**

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

**B. Fund Accounting**

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

**Governmental Funds**

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

**CITY OF MASSILLON, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

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

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

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

**Proprietary Funds**

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

**Enterprise Funds**

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

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

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

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

**Internal Service Fund**

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

**Fiduciary Funds**

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

**CITY OF MASSILLON, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

**C. Measurement Focus**

**Government-wide Financial Statements**

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

**Fund Financial Statements**

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

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

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

**D. Basis of Accounting**

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

**Revenues - Exchange and Nonexchange Transactions**

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

**CITY OF MASSILLON, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On the accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 5). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and rentals.

**Deferred Revenue**

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

Property taxes for which there is an enforceable legal claim as of December 31, 2007, but which were levied to finance 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**Expenses/Expenditures**

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

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

**E. Budgetary Process**

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

**CITY OF MASSILLON, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2007**

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

**F. Cash and Cash Equivalents**

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

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

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2007, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

**H. Inventory**

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

**I. Capital Assets**

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

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

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

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

The City's infrastructure consists of sanitary sewers and current year improvements to general infrastructure assets (i.e. roads and storm sewers). GASB Statement No. 34 requires *prospective* reporting of general infrastructure assets from the date the government first implements the Statement. The Statement creates a transition period for the retroactive reporting of major general infrastructure assets. Based on these guidelines, governments are not required to report major general infrastructure assets acquired, reconstructed, improved, etc. between 1980 and the year of implementation through 2006. For 2007, the City is required to retroactively report infrastructure used in governmental activities that was acquired prior to 2003 and since 1980.

**J. Deferred Charges and Bond Premiums**

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

**K. Interfund Balances**

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

**L. Compensated Absences**

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

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

**M. Accrued Liabilities and Long-Term Obligations**

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

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

**N. Fund Balance Reserves**

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

**O. Net Assets**

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

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

**P. Operating Revenues and Expenses**

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

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**Q. Contributions of Capital**

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

**R. Interfund Activity**

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

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

**S. Estimates**

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

**3. BUDGETARY BASIS OF ACCOUNTING**

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

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

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



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

Net Change in Fund Balance	
GAAP Basis	\$ (363,653)
Revenue Accruals	181,313
Expenditure Accruals	(99,923)
Encumbrances (Budget Basis)	
Outstanding at year end	<u>(211,469)</u>
Budget Basis	<u>\$ (493,732)</u>

**4. DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (Star Ohio).

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

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

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

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

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

Deposits:

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

As of December 31, the carrying amount of the City's deposits was \$7,485,843. The City's bank balance of \$8,346,759 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department and in the City's name.	\$ 7,940,056
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Interest earned on the deposits in the Massillon Bicentennial and the Massillon Municipal Court agency funds and certain street maintenance and repair special revenue funds are recorded in those funds as required by fiduciary agreements and state statute. All other interest is legally required to be placed in the general fund. Interest revenue credited to the general fund during 2007 amounted to \$387,985, which includes \$357,998 assigned from other City funds.

**5. PROPERTY TAX**

Property taxes include amounts levied against all real and public utility property, and tangible personal (used in business) property located in the City. 2006 real property taxes were levied after October 1, 2006 on the assessed value as of January 1, 2006, the lien date, and were collected in 2007. Assessed values are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes received in 2007 attached as a lien on December 31, 2006, were levied after October 1, 2007, and are collected with real property taxes. Public utility property taxes are assessed on tangible personal property at 100% of true value and on real property at 35% of assessed valuation. 2007 tangible personal property taxes are levied after October 1, 2006, on the value listed as of December 31, 2006, and are collected in 2007. Tangible personal property assessments are 25% of true value. The full-tax rate for all City operations applied to taxable property for the year ended December 31, 2007, was \$4.70 per \$1,000 of assessed valuation.

The assessed values upon which the 2007 taxes were collected are as follows:

<u>Property Category</u>	<u>2007 Assessed Value</u>	<u>Percent</u>
<u>Real Property</u>		
Residential and Agricultural	\$ 361,715,940	63.8 %
Commercial, Industrial, Mineral	139,663,520	24.6
Public Utilities	102,830	0.0
<u>Tangible Personal Property</u>		
General	42,845,037	7.6
Public Utilities	<u>22,499,780</u>	<u>4.0</u>
Total	<u>\$ 566,827,107</u>	<u>100.0 %</u>

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

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

The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5%. This will be reduced to 6.25% for 2008 and zero for 2009.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility, and tangible personal property taxes, which became measurable as of December 31, 2007. However, since these tax collections will not be received during the available period, nor intended to finance 2007 operations, the receivable is offset by a credit to deferred revenue.

**6. INCOME TAX**

The City levies and collects an income tax of 1.8% on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated taxes at least quarterly and to file a final return annually. Income tax revenues are distributed based on Council's discretion and can change during the year. Currently the tax revenues are distributed between the general fund (79.17%), capital improvements fund (4.17%) and parks and recreation fund (16.66%). The parks and recreation fund also allocates income tax revenues to the debt service bond retirement park and recreation fund as needed.

**7. RECEIVABLES**

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

<u>Revenue description</u>	<u>Amount</u>
Cents per gallon, excise tax and motor vehicle	\$ 742,898
Rollback, homestead and tangible exemptions	105,851
Local government	512,678
Miscellaneous grants	284,889
Public utility and manufactured home reimbursement	4,892
WIC reimbursements	16,257
Total	<u>\$ 1,667,465</u>

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**8. CAPITAL ASSETS**

Governmental Activities: A summary of the governmental activities' capital assets as of December 31, 2007 follows:

<u>Governmental Activities</u>	<u>Restated Balance 1/1/2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/2007</u>
Capital assets, not being depreciated:				
Land	\$ 8,539,291	\$ -	\$ -	\$ 8,539,291
Construction in progress	<u>1,378,515</u>	<u>475,316</u>	<u>(1,853,831)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>9,917,806</u>	<u>475,316</u>	<u>(1,853,831)</u>	<u>8,539,291</u>
Capital assets, being depreciated:				
Land improvements	3,337,952	-	-	3,337,952
Buildings	14,584,600	-	-	14,584,600
Vehicles	4,520,490	187,639	(158,653)	4,549,476
Machinery and equipment	2,789,295	7,594	(89,000)	2,707,889
Infrastructure	<u>21,623,444</u>	<u>2,046,268</u>	<u>-</u>	<u>23,669,712</u>
Total capital assets, being depreciated	<u>46,855,781</u>	<u>2,241,501</u>	<u>(247,653)</u>	<u>48,849,629</u>
Less accumulated depreciation:				
Land improvements	(682,018)	(85,598)	-	(767,616)
Buildings	(5,028,045)	(358,462)	-	(5,386,507)
Vehicles	(3,245,700)	(236,439)	158,653	(3,323,486)
Machinery and equipment	(1,571,297)	(167,996)	80,600	(1,658,693)
Infrastructure	<u>(5,817,304)</u>	<u>(850,317)</u>	<u>-</u>	<u>(6,667,621)</u>
Total accumulated depreciation	<u>(16,344,364)</u>	<u>(1,698,812)</u>	<u>239,253</u>	<u>(17,803,923)</u>
Total capital assets being depreciated, net	<u>30,511,417</u>	<u>542,689</u>	<u>(8,400)</u>	<u>31,045,706</u>
Governmental activities capital assets, net	<u>\$ 40,429,223</u>	<u>\$ 1,018,005</u>	<u>\$ (1,862,231)</u>	<u>\$ 39,584,997</u>

**CITY OF MASSILLON, OHIO**

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Depreciation Expense: Depreciation expense charged to governmental functions for the year ending December 31, 2007 is as follows:

<u>Depreciation Expense:</u>	
General government	\$ 147,307
Security of persons and property	177,419
Public health and welfare	567
Leisure time activities	414,666
Economic development and assistance	8,519
Transportation	<u>950,334</u>
Total depreciation expense	<u>\$ 1,698,812</u>

Business-type Activities: A summary of the business-type activities' capital assets as of December 31, 2007 follows:

<u>Business-Type Activities</u>	<u>Restated Balance 1/1/2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/2007</u>
Capital assets, not being depreciated:				
Land	\$ 3,052,637	\$ -	\$ -	\$ 3,052,637
Capital assets, being depreciated:				
Land improvements	2,117,426	-	-	2,117,426
Buildings	8,313,414	-	-	8,313,414
Vehicles	1,374,927	-	(111,716)	1,263,211
Machinery and equipment	2,364,619	5,820	-	2,370,439
Infrastructure	<u>56,203,021</u>	<u>234,821</u>	-	<u>56,437,842</u>
Total capital assets, being depreciated	<u>70,373,407</u>	<u>240,641</u>	<u>(111,716)</u>	<u>70,502,332</u>
Less accumulated depreciation:				
Land improvements	(1,275,081)	(101,997)	-	(1,377,078)
Buildings	(5,448,010)	(197,659)	-	(5,645,669)
Vehicles	(695,534)	(79,340)	111,716	(663,158)
Machinery and equipment	(1,708,773)	(149,253)	-	(1,858,026)
Infrastructure	<u>(8,811,756)</u>	<u>(1,279,167)</u>	-	<u>(10,090,923)</u>
Total accumulated depreciation	<u>(17,939,154)</u>	<u>(1,807,416)</u>	<u>111,716</u>	<u>(19,634,854)</u>
Total capital assets being depreciated, net	<u>52,434,253</u>	<u>(1,566,775)</u>	-	<u>50,867,478</u>
Business-type activities capital assets, net	<u>\$ 55,486,890</u>	<u>\$ (1,566,775)</u>	-	<u>\$ 53,920,115</u>

Depreciation Expense: Depreciation expense charged to business-type activities for the year ending December 31, 2007 is as follows:

<u>Depreciation Expense:</u>	
Wastewater	\$ 1,575,236
Golf Course	187,025
Solid Waste	<u>45,155</u>
Total depreciation expense	<u>\$ 1,807,416</u>

**CITY OF MASSILLON, OHIO**

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**9. CAPITAL LEASES**

The City leases various vehicles and equipment through capital leasing arrangements in the governmental and proprietary fund types. The assets and obligations for agreements of the governmental funds are recorded in the statement of net assets. Governmental capital assets attributable to capital leases consist of vehicles in the amount of \$624,216 and machinery and equipment in the amount of \$215,481. There is also \$1,158,405 in equipment recorded as business-type capital assets as the result of capital lease agreements. The payments for these capital leases are shown on a GAAP basis as debt service expenditures in the general and other governmental funds. Payments related to lease agreements in the enterprise funds are shown as a reduction of capital leases payable and interest expense.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2007.

<u>Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2008	197,127	169,016
2009	128,768	119,880
2010	19,780	33,232
2011	<u>-</u>	<u>9,034</u>
Total minimum lease payments	345,675	331,162
Less: amount representing interest	<u>23,728</u>	<u>22,443</u>
Present value of minimum lease payments	<u>\$ 321,947</u>	<u>\$ 308,719</u>

**10. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund transfers for the year ended December 31, 2007, consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>
	<u>General</u>
Lincoln Center bond retirement	\$ 314,520
Nonmajor governmental funds	<u>812,912</u>
Total	<u>\$ 1,127,432</u>

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

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During the year ended December 31, 2007, the City made transfers totaling \$812,912 from the general fund to the police and fire pension funds and two debt service funds. In addition, the general fund transferred \$314,520 to the Lincoln Center bond retirement debt service fund. These transfers represent amounts necessary to carry out the purpose of the program prior to receiving additional funding and to cover shortages resulting from retiring debt and paying the employer's share of police and fire pensions.

Interfund balances at December 31, 2007 consisted of the following:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General fund	\$ 210,000	\$ -
Golf course fund	-	90,000
Solid waste fund	29,000	
Nonmajor governmental fund	<u>20,000</u>	<u>169,000</u>
Totals	<u>\$ 259,000</u>	<u>\$ 259,000</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of December 31, 2007, all interfund loans outstanding are anticipated to be repaid by 2015. The repayment schedule is specified in Ordinance 133-2005. The golf course fund will pay back the general and park and recreation fund as shown below:

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

**11. CONDUIT DEBT OBLIGATIONS**

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



**CITY OF MASSILLON, OHIO**

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**12. BONDED DEBT AND OTHER LONG-TERM OBLIGATIONS**

A listing of changes in the bonds and other long-term obligations of the City for the year ended December 31, 2007 follows:

	<u>Balance</u> <u>1/1/2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2007</u>	<u>Due within</u> <u>one year</u>
<u>Business-Type Activities</u>					
<u>General Obligation Bonds</u>					
2002 Wastewater Refunding					
Series 88, 1.5 - 3.0%	\$ 320,000	\$ -	\$ (160,000)	\$ 160,000	\$ 160,000
2002 Golf Course					
Construction					
Refunding, 1.5 - 7.16%	5,665,000	-	(195,000)	5,470,000	205,000
Unamortized:					
Discount	(53,897)	-	3,885	(50,012)	-
Deferred Cost	(139,262)	-	26,420	(112,842)	-
Capital Appreciation Bonds	1,226,233	-	-	1,226,233	-
Accretion on Bonds	<u>113,825</u>	<u>31,932</u>	<u>-</u>	<u>145,757</u>	<u>-</u>
Total General Obligation	<u>7,131,899</u>	<u>31,932</u>	<u>(324,695)</u>	<u>6,839,136</u>	<u>365,000</u>
<u>Special Obligation Debt</u>					
2001 State Hospital, 0%	14,069	-	-	14,069	-
<u>Loans Payable</u>					
1999 WPCL Fothergill, 3.81%	1,060,542	-	(61,389)	999,153	63,750
WWTP Upgrade OWDA, 1.26%	5,359,271	-	(315,737)	5,043,534	320,077
WWTP Upgrade OWDA, 1.26%	<u>31,406,663</u>	<u>69,372</u>	<u>(1,621,064)</u>	<u>29,854,971</u>	<u>1,643,360</u>
Total Loans	<u>37,826,476</u>	<u>69,372</u>	<u>(1,998,190)</u>	<u>35,897,658</u>	<u>2,027,187</u>
<u>Other Long-term Obligations</u>					
Compensated absences	517,469	9,325	(69,918)	456,876	38,147
Capital leases	<u>476,886</u>	<u>-</u>	<u>(168,167)</u>	<u>308,719</u>	<u>155,629</u>
Total Business-Type Activities	<u>\$ 45,966,799</u>	<u>\$ 110,629</u>	<u>\$ (2,560,970)</u>	<u>\$ 43,516,458</u>	<u>\$ 2,585,963</u>

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	<u>Balance</u> <u>1/1/2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2007</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities</u>					
General Obligation Bonds					
2007 Lincoln Center III					
Serial and Term Bonds	\$ -	\$ 2,390,000	\$ -	\$ 2,390,000	\$ 100,000
Capital Appreciation Bonds	-	179,998	-	179,998	-
Accretion on Bonds	-	966	-	966	-
2002 Lincoln Center					
Phase II Refunding, 1.5-4%	2,160,000	-	(240,000)	1,920,000	250,000
1994 Senior Center					
8.00-8.50%	1,105,000	-	(25,000)	1,080,000	30,000
2002 Park and Recreation, 5.2%	12,080,000	-	(115,000)	11,965,000	135,000
2004 Marketplace TIF, 1.5-4.2%					
Serial and Term Bonds	1,415,000	-	(85,000)	1,330,000	85,000
Capital Appreciation Bonds	109,999	-	-	109,999	-
Accretion on Bonds	<u>30,546</u>	<u>13,035</u>	<u>-</u>	<u>43,581</u>	<u>-</u>
Total General Obligation	<u>16,900,545</u>	<u>2,583,999</u>	<u>(465,000)</u>	<u>19,019,544</u>	<u>600,000</u>
<u>Bond Anticipation Notes</u>					
Lincoln Center, Phase III					
2006, 3.76%	2,993,000	-	(2,993,000)	-	-
Loans Payable					
2005 OPWC loan	480,673	-	(23,911)	456,762	23,911
1999 HUD Section 108	<u>1,975,000</u>	<u>-</u>	<u>(55,000)</u>	<u>1,920,000</u>	<u>60,000</u>
Total Loans Payable	<u>2,455,673</u>	<u>-</u>	<u>(78,911)</u>	<u>2,376,762</u>	<u>83,911</u>
Special Obligation Debt					
1993 State Hospital, 0.0%	209,250	-	(139,500)	69,750	69,750
Other Obligations					
Police and firemen's pension liability	1,526,824	-	(28,401)	1,498,423	29,621
Long-term compensated absences	2,426,708	172,300	(446,305)	2,152,703	197,839
Capital leases payable	<u>345,663</u>	<u>163,787</u>	<u>(187,503)</u>	<u>321,947</u>	<u>129,626</u>
Total Governmental Activities	<u>\$ 26,857,663</u>	<u>\$ 2,920,086</u>	<u>\$ (4,338,620)</u>	<u>\$ 25,439,129</u>	<u>\$ 1,110,747</u>

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

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The 2007 Lincoln Center, 2004 Marketplace TIF and the 2002 Golf Course Construction Refunding bond issues include serial and capital appreciation bonds. Current year additions to the 2007 Lincoln Center, 2004 Marketplace TIF and the 2002 Golf Course Construction Refunding bonds amounted to \$966, \$13,035 and \$31,932, respectively, which represent the accretion of discounted interest. The final amounts of the capital appreciation bonds will be \$415,000, \$285,000 and \$910,000, respectively.

**Bond Anticipation Notes:** During 2006, bond anticipation notes were issued for \$2,993,000 to finance the construction of the Lincoln Center complex. In 2007, the notes were repaid and replaced with long-term bonds. The bond anticipation notes were originally issued to encourage development in a redevelopment area. Revenues for payment of interest and principal on the bond result from service payments being made in lieu of taxes.

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

The City also entered into an agreement with the Ohio Water Development Authority (OWDA) to upgrade and expand the City's wastewater treatment facility. The agreement provides loan proceeds totaling \$42.5 million which will be received by the City and used to fund the projects. The debt proceeds will be repaid by wastewater service charges semi-annually over 20 years at 1.26% per annum. Under the terms of the agreement, the OWDA will reimburse or directly pay the construction costs of the approved projects. The OWDA will capitalize administrative costs and construction interest and add them to the total of each loan. As of December 31, 2007, the City owes \$34,898,505. An amortization schedule is not presented since repayment is not required until all proceeds have been received.

**Special Obligation:** In 2001, the City acquired a piece of land from the Massillon Psychiatric Center in exchange for services and a yearly payment of approximately \$25,712. Remaining obligations of the 2001 agreement are expected to be satisfied in 2008. Again in 2005, the City acquired additional land for a value of \$579,000 of which \$300,000 of this value was paid during 2005. In 2007, \$139,500 was repaid with the remaining balance expected to be paid during 2008.

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The annual requirements to amortize all governmental activity debt outstanding as of December 31, 2007, including interest payments, are as follows:

Year	General Obligation Bonds		Section 108 Loan	
	Principal	Interest	Principal	Interest
2008	600,000	918,493	60,000	150,183
2009	630,000	891,379	65,000	145,852
2010	705,000	868,154	70,000	141,174
2011	805,000	840,856	75,000	135,960
2012	1,035,000	805,944	80,000	130,336
2013-2017	3,909,189	3,603,732	485,000	550,816
2018-2022	3,800,808	2,500,462	1,085,000	163,103
2023-2027	4,250,000	1,429,144	-	-
2028-2031	3,240,000	415,000	-	-
Total	<u>\$ 18,974,997</u>	<u>\$ 12,273,164</u>	<u>\$ 1,920,000</u>	<u>\$ 1,417,424</u>

The annual requirements to amortize all business-type activity debt outstanding as of December 31, 2007, including interest payments, are as follows:

Year	General Obligation Bonds		Water Pollution Control Loans	
	Principal	Interest	Principal	Interest
2008	365,000	286,995	63,750	37,466
2009	255,000	276,045	66,202	35,014
2010	260,000	267,885	68,748	32,468
2011	179,633	344,412	71,393	29,824
2012	170,583	353,462	74,138	27,078
2013-2017	1,206,017	1,415,388	415,724	90,357
2018-2022	1,345,000	923,727	239,198	13,842
2023-2027	1,550,000	590,187	-	-
2028-2031	1,525,000	185,487	-	-
Total	<u>\$ 6,856,233</u>	<u>\$ 4,643,588</u>	<u>\$ 999,153</u>	<u>\$ 266,049</u>

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

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

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

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

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

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

**13. DEFINED BENEFIT PENSION PLANS**

All full-time employees of the City, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a multiple-employer, cost-sharing public employee retirement system administered by the Public Employees Retirement Board. All full-time uniformed City police participate in the Ohio Police and Fire Pension Fund (OP&F), also a multiple-employer, cost-sharing public employee retirement system. Both of these retirement plans provide basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits for OPERS and OP&F is provided by the Ohio State Legislature and are codified in the Ohio Revised Code, Chapters 145 and 742, respectively. Each retirement system prepares a stand-alone financial report that includes financial information and required supplementary information for the plans. These reports can be obtained by writing to OPERS at 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377 and OP&F at 140 East Town Street, Columbus, Ohio 43215-5164.

**CITY OF MASSILLON, OHIO**

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2007, member and employer contribution rates were the same across all three plans (TP, MD and CP). Separate divisions for law enforcement and public safety exist only within the Traditional Plan. The 2007 member contribution rates were 9.5% for members in classifications other than law enforcement and public safety. Members in the law enforcement classification, which consist of sheriffs, deputy sheriffs, and township police contributed at a rate of 10.1%. Public safety division members contribute 9.75%. The City's contribution rate for 2007 was 13.85%, of which 8.85% was used to fund the pension benefits from January 1 through June 30 and 7.85% from July 1 through December 31, 2007. For both law enforcement and public safety divisions the employer contribution rate was 17.17% of covered payroll, of which 12.17% was used to fund the pension benefits from January 1 through June 30 and 11.17% from July 1 through December 31, 2007. The City's contributions to OPERS for the years ended December 31, 2007, 2006 and 2005 were \$683,080, \$727,206 and \$744,780 respectively; 90.1% has been contributed for 2007 and 100 percent for 2006 and 2005. \$67,636, representing the unpaid contribution for 2007, is recorded as a liability within the respective funds.

**OP&F:** Plan members are required to contribute 10% of their covered salary to fund pension obligations, while employers are required to contribute 19.5% and 24.0%, respectively, for police officers and firefighters. The portion used to fund pension obligations were 12.75% and 17.25% respectively for police officers and firefighters. Contributions are authorized by state statute. The City's required contributions to OP&F for the years ending December 31, 2007, 2006, and 2005 were \$801,758, \$722,065 and \$694,084, respectively. The full amount has been contributed for 2006 and 2005. Approximately 72% has been contributed for 2007 with the remainder being reported as a liability within the respective funds.

**14. POSTEMPLOYMENT BENEFITS**

OPERS administers three separate pension plans, the Traditional Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CP), all of which are described in Note 13. OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the TP and MD Plans; however, health care benefits are not statutorily guaranteed. Members of the MD Plan do not qualify for ancillary benefits, including post-employment health care coverage.

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In order to qualify for post-retirement health care coverage, age and service retirees under the TP and CP plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2007 employer contribution rate for local government employers was 13.85% of covered payroll. For both the public safety and law enforcement divisions the 2007 employer rate was 17.17% of covered payroll. The portion of employer contributions, for all employers, allocated to health care was 5% from January 1 through June 30, 2007 and 6% from July 1 through December 31, 2007.

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

OPEB are advanced-funded on an actuarially determined basis. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2006 (latest information available) was 6.50%. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase 4.00% annually.

At year-end 2007, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 374,979. Based on the actuarial cost method used, the Actuarial Valuation as of December 31, 2006, reported the actuarial accrued liability and the unfunded actuarially accrued liability were \$30.7 billion and \$18.7 billion, respectively. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2006 (latest information available) was \$12.0 billion.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

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

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The Ohio Revised Code provides the statutory authority allowing OP&F's Board of Trustees to offer health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2006 and 6.75% in 2007. In addition, since July 1, 1992, most retirees and survivors were required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The numbers of participants eligible to receive health care benefits as of December 31, 2006, the date of the last actuarial valuation available, are 14,120 for Police and 10,563 for Firefighters.

The City's actual contributions for 2007 that were used to fund post-employment benefits were \$362,524.

OP&F's total health care expense for the year ending December 31, 2006, the date of the last actuarial valuation available, was \$120,373,722, which was net of member contributions of \$58,532,848.

**15. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City contracts with Public Entities Pool of Ohio (PEP), a local government risk pool. The Pool was formed in 1986 for the primary purpose of managing and funding third party liability claims against its members. As a member of the Pool, the City is required to make annual budgetary contributions sufficient to annually produce a sum of money necessary to fund the administrative expenses and reinsurance expenses of PEP. PEP is a member of the American Public Entity Excess Pool (APEEP).

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides excess of funds available coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 or \$3,000,000 as noted above.

Property Coverage

Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.



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The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

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

<u>Casualty &amp; Property Coverage</u>	<u>2007</u>	<u>2006</u>
Assets	37,560,071	36,123,194
Liabilities	<u>(17,340,825)</u>	<u>(16,738,904)</u>
Net Assets	<u>\$ 20,219,246</u>	<u>\$ 19,384,290</u>

The City uses an internal service fund to record and report its self-funded health care insurance program. During 2003, the City changed its medical health insurance and is no longer completely self-insured, rather the City is now commercially insured. The City remains self-insured for vision and dental coverage for employees. The claims liability of \$3,887 reported in the fund at December 31, 2007, was estimated by third party administrators and is based on the requirements of GASB Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The City purchases stop-loss coverage of \$35,000 per employee. Changes in the fund's claims liability during 2006 and 2007 were:

	Balance at beginning <u>of year</u>	Current <u>year claims</u>	Claim <u>payments</u>	Balance at end <u>of year</u>
2006	\$ 674	18,880	19,260	\$ 294
2007	\$ 294	13,232	9,639	\$ 3,887

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

**16. JOINTLY GOVERNED ORGANIZATIONS AND JOINT VENTURE**

**Jointly Governed Organizations**

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

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

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

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

The City participates in the Stark County Regional Planning Commission (the Commission) which is a statutorily created political subdivision of the State. The Commission is jointly governed among Stark County, other cities, villages and townships. Of the forty-eight member board, the City appoints two members. The degree of control exercised by any participating government is limited to its representation on the board. The principal aim of the Commission is to provide comprehensive planning, both long and short range, dealing with the economic and physical environment of Stark County. The board exercises total authority for the day-to-day operations of the Commission. These include budgeting, appropriating, contracting, and designating management. The City has no financial responsibility for any of the Commission's liabilities. In 2007, the City contributed a nominal amount to the Commission, which represented less than 1% of total contributions. Complete financial statements may be obtained from the Stark County Regional Planning Commission, Stark County, Ohio.

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**Joint Venture**

The City participates in the Local Organized Governments in Cooperation (LOGIC), a statutorily created political subdivision of the State formed in 1986 to provide safety dispatching services. LOGIC is a joint venture among the City, Jackson Township, City of Canal Fulton, and Hills and Dales Village, with each participant providing one representative. Each representative has a membership share based on the percentage of contractual financial contributions to the total funding, and each participant is entitled to vote its percentage share. The board has total authority over the operation of LOGIC, including budgeting, appropriating, contracting, and designating management. Continued existence of LOGIC is dependent on the City's continued participation. LOGIC does not provide specific financial benefits or impose specific financial burdens on the City. During 2007, the City made contributions of \$393,491, but does not have an equity interest in LOGIC. Financial statements of LOGIC may be obtained from Local Organized Governments in Cooperation, Canton, Ohio.

**17. FUND DEFICITS**

As of December 31, 2007, the Legends Golf Course enterprise fund had a deficit net asset balance of \$2,149,269. In addition, the police pension and fire pension special revenue funds had deficit fund balances of \$130,236 and \$144,191 respectively. Finally, the waste management special revenue fund had a deficit fund balance of \$13,443. These deficits were a result of the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances in other funds, however, this is done when cash is needed rather than when accruals occur.

**18. CONTINGENT LIABILITIES**

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

**19. RESTATEMENT OF NET ASSETS**

The City has been reporting infrastructure acquired in governmental activities since the implementation of GASB Statement No. 34 in 2003. For 2007, the City is required to report infrastructure used in governmental activities that was acquired prior to 2003 and since 1980. The further implementation of this Statement requires a restatement of net assets. In addition, the City has identified infrastructure for the wastewater fund that was not previously reported. The reporting of this results in a restatement of net assets as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net assets at December 31, 2006	\$ 16,853,079	\$ 9,887,548
Infrastructure, net of depreciation	<u>8,962,187</u>	<u>4,569,450</u>
Net assets at January 1, 2007	<u>\$ 25,815,266</u>	<u>\$ 14,456,998</u>

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**CITY OF MASSILLON  
STARK COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE:</u></b>				
<i>Passed Through Ohio Department of Education and the City of Canton</i>				
Special Supplemental Nutrition Program for Women, Infants and Children	01-76201FCL389	10.557	\$110,102	\$106,393
Summer Food Service Program for Children	092965-24NP-2006	10.559	46,463	0
Child and Adult Care Food Program	092965-CCMO-2006	10.558	<u>144,184</u>	<u>148,327</u>
Total U.S. Department of Agriculture			300,749	254,720
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u></b>				
<i>Direct</i>				
Community Development Block Grants/Entitlement Grants	393114	14.218	670,657	707,401
<i>Passed Through Stark County HOME Consortium</i>				
HOME Investment Partnerships Program	M04DC390204	14.239	<u>173,358</u>	<u>247,644</u>
Total U.S. Department of Housing and Urban Development			844,015	955,045
<b><u>U.S. DEPARTMENT OF JUSTICE:</u></b>				
<i>Passed Through Ohio Office of Criminal Justice Services</i>				
Local Law Enforcement Block Grant Program	2006DJBX0058	16.592	0	5,525
Bulletproof Vest Grant	2006BOBX0613259	16.607	1,000	1,000
Violence Against Women Formula Grants	2004-DG-DOV-7646	16.588	<u>29,000</u>	<u>29,000</u>
Total U.S. Department of Justice			30,000	35,525
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u></b>				
<i>Passed Through the Ohio Department of Health</i>				
Centers for Disease Control and Prevention_Investigations and Technical Assistance	7620012BI07	93.283	23,839	23,839
<b><u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u></b>				
<i>Passed Through the Stark County Emergency Management Agency</i>				
State Homeland Security Program	2005-GE-T5-0001	97.073	<u>69,097</u>	<u>69,097</u>
<b>Totals</b>			<b><u>\$1,267,700</u></b>	<b><u>\$1,338,226</u></b>

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

**CITY OF MASSILLON  
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED DECEMBER 31, 2007**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - SUBRECIPIENTS**

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

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

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

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

These loans are collateralized by a deed of trust of mortgage in favor of the City upon all land, buildings, fixtures, equipment and other assets of the applicant comprising the project and by the applicant's personal guarantee of repayment, unconditionally and irrevocably guaranteeing repayment of the revolving loan funds of the City. At December 31, 2007, the gross amount of loans outstanding under this program was \$3,375,412. Of this balance, \$19,035 is presented within the financial statements as "Loans Receivable" and \$3,356,377 is presented as "Notes Receivable" since the City actually holds a mortgage note for the amount loaned to the developer.

**NOTE D – MATCHING REQUIREMENTS**

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



# Mary Taylor, CPA

Auditor of State

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

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

To the Honorable Mayor and City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Massillon, Stark County, Ohio (the City) as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 5, 2008 in which we noted the City reported infrastructure used in governmental activities acquired prior to 2003 and since 1980 in accordance with *Governmental Accounting Standards Board* Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above is a material weakness.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated September 5, 2008.

### **Compliance and Other Matters**

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

We did note certain noncompliance or other matters that we reported to the City's management in a separate letter dated September 5, 2008.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

September 5, 2008





# Mary Taylor, CPA

Auditor of State

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

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

To the Honorable Mayor and City Council:

### Compliance

We have audited the compliance of the City of Massillon, Stark County, Ohio (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended December 31, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Massillon, Stark County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2007. In a separate letter to the City's management dated September 5, 2008, we reported other matters related to federal noncompliance not requiring inclusion in this report.

### Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

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Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that the City's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the City's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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



**Mary Taylor, CPA**  
Auditor of State

September 5, 2008

**CITY OF MASSILLON  
STARK COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2007**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

**Material Weakness – Capital Assets**

During testing of capital assets we noted the following:

- The City has limited documented capital asset policies/procedures. These policies/procedures do not include accounting for such items as infrastructure, treatment of resurfacing roadways, capturing “donated” assets/infrastructure or establishing useful lives for depreciation.
- Adjustments were proposed and recorded using estimated historical cost to both governmental and business type activities of approximately \$3.0 million and \$5.0 million, respectively, to record omitted items. The majority of these items related to donated/contributed infrastructure capital assets as a result of new developments/projects within the City over a number of years and bridges omitted in retroactively implementing GASB 34 infrastructure requirements.
- The City sold 4 parcels of land, a 1990 Cadillac and a 1995 leaf machine. These assets were not included within the governmental activities on the City’s Master Asset Listing.
- The City included the Tremont Avenue bridge as a capital asset within governmental activities on the Master Capital Asset Listing in the amount of \$3,400,000. However, the bridge work was recently re-bid (after December 31, 2007) and the amount recorded represented the original bid amount. The City has recorded an adjustment to remove the asset at December 31, 2007.
- The City’s Master Asset Listing does not always include all pertinent/sufficient information to easily identify infrastructure and land parcels.

In order to help correct these deficiencies, the City should:

- Review and update their capital asset policies and procedures. These policies/procedures should be comprehensive and incorporate all requirements necessary for the City to account for all capital assets as well as meeting financial reporting requirements. These procedures should include but are not limited to such items as establishing capitalization thresholds (applicable to individual items or items purchased in aggregate), accounting for infrastructure assets, defining types of road work (i.e. resurfacing) and how these will be capitalized, identifying and costing of donated infrastructure (both governmental and business activities), and establishing useful lives of these assets.
- Implement procedures to help ensure all City assets meeting the established requirements are recorded. These procedures may include, but are not limited, review of capital outlay expenditures, minute records, and engineer’s records of infrastructure, easements, and other donated assets.
- Review the Master Capital Asset Listing to verify all assets listed have been acquired/constructed and are owned by the City. The City should also consider distributing the listing, periodically, to responsible departments for their review and confirmation of accuracy of the listing.
- Review the Master Capital Asset Listing to help ensure asset descriptions contain sufficient information to properly/easily identify the asset. The City may consider requesting assistance from the County Auditor and Recorder Offices’ as well as any available City resources to obtain this additional information.

**Officials’ Response:** The City intends to develop a comprehensive Capital Asset policy under the direction of the City Engineer and City Auditor, subject to City Council approval. Additionally, the City Auditor’s office has designated one of its employee’s primary responsibilities to be the maintenance and monitoring of the capital asset listing. This process will be further aided by the City’s plans to acquire software designed specifically for capital asset processing and tracking.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

**CITY OF MASSILLON  
STARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
DECEMBER 31, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2006-001	ORC 9.38 – City did not deposit all monies with the City Treasurer or designated depository within 24 hours.	Partially Corrected	Comment repeated in the management letter
2006-002	Capital Assets – Capital Assets required various correcting entries.	No	Not Corrected – see Finding 2007-001
2006-003	Golf Course – All rates were not approved by the Park and Recreation Board and all daily receipts were not reconciled to the daily activity.	Partially Corrected	Comment repeated in the management letter



**Mary Taylor, CPA**  
Auditor of State

**CITY OF MASSILLON**

**STARK COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 13, 2008**