



**Auditor of State
Betty Montgomery**

**CITY OF MASSILLON
STARK COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet	
Governmental Funds.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance	
Governmental Funds.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance	
Budget (Non-GAAP Basis) an Actual	
General Fund	20
Statement of Fund Net Assets	
Proprietary Funds.....	21
Statement of Revenues, Expenses and Changes in Fund Net Assets	
Proprietary Funds.....	22
Statement of Cash Flows	
Proprietary Funds.....	23
Statement of Fiduciary Net Assets	
Fiduciary Funds.....	24
Statement of Changes in Fiduciary Net Assets	
Fiduciary Funds.....	25
Notes to the Basic Financial Statements.....	27
Schedule of Receipts and Expenditures of Federal Awards.....	57
Notes to the Schedule of Receipts and Expenditures of Federal Awards	58
Independent Accountants' Report on Compliance and on	
Internal Control Required by <i>Government Auditing Standards</i>	59
Independent Accountants' Report on Compliance with Requirements	
Applicable to Its Major Federal Program and on Internal Control Over	
Compliance in Accordance with OMB Circular A-133	61
Schedule of Findings.....	63
Schedule of Prior Audit Findings.....	64

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Honorable Mayor and City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Massillon, Stark County, Ohio, (the City) as of and for the year ended December 31, 2003, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Massillon, Stark County, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*. In addition, as described in Note 3, errors were noted in the classifications of capital assets during the year ended December 31, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is required by 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 Schedule of Receipts and Expenditures of Federal Awards to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

September 30, 2004

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
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, 2003. 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. Since this is the first year of financial presentation under Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", some analyses with prior year data is not available. Future Management Discussion and Analyses will be comparative.

Financial Highlights

Key financial highlights for 2003 are as follows:

- The total net assets of the City decreased \$293,856. Net assets of governmental activities increased \$353,646, which represents a 3.1% increase over fiscal year 2002. Net assets of business-type activities decreased \$647,502 or 10.8% from fiscal year 2002.
- General revenues accounted for \$16,609,316 or 69.2% of total governmental activities revenue. Program specific revenues accounted for \$7,404,090 or 30.8% of total governmental activities revenue.
- Governmental activities net capital assets increased \$1,674,414, primarily due to construction in progress to the City's infrastructure.
- The City had \$5,945,709 and \$8,791,482 in expenses related to general governmental activities and security of persons and property, respectively. \$2,423,673 of these expenses were offset by program specific charges for services, grants, contributions, or interest. General revenues (primarily taxes) of \$16,609,316 were adequate to provide for these programs.
- The general fund, the City's largest major fund, had revenues of \$15,604,933 in 2003, or 63.7% of total governmental funds. Expenditures of the general fund were \$14,327,955, or 48.3% of total governmental funds. The general fund balance increased \$73,980 in 2003, or 4.8%, over 2002.

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, 2003
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 2003?" 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 and golf course.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

**City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
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 governmental funds (nonmajor governmental funds) are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 16-20 of this report.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds (wastewater, solid waste, and golf course) 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 an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for a self-funded health insurance program for employees of the City. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements. The City The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Fiduciary Funds

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 26-54 of this report.

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
Unaudited

Government-Wide Financial Analysis

The statement of net assets provides the perspective of the City as a whole. Table 1 below provides a summary of the City's net assets for 2003 compared to 2002:

Table 1
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<u>Assets:</u>						
Current and other assets	\$ 15,776,116	\$ 16,221,491	\$ 5,720,821	\$ 8,792,720	\$ 21,496,937	\$ 25,014,211
Capital assets	<u>26,401,096</u>	<u>24,726,682</u>	<u>45,281,913</u>	<u>29,995,370</u>	<u>71,683,009</u>	<u>54,722,052</u>
Total assets	<u>42,177,212</u>	<u>40,948,173</u>	<u>51,002,734</u>	<u>38,788,090</u>	<u>93,179,946</u>	<u>79,736,263</u>
<u>Liabilities:</u>						
Other liabilities	3,437,789	2,265,722	502,617	632,659	3,940,406	2,898,381
Long-term liabilities outstanding	<u>27,048,912</u>	<u>27,345,586</u>	<u>45,175,478</u>	<u>32,183,290</u>	<u>72,224,390</u>	<u>59,528,876</u>
Total liabilities	<u>30,486,701</u>	<u>29,611,308</u>	<u>45,678,095</u>	<u>32,815,949</u>	<u>76,164,796</u>	<u>62,427,257</u>
<u>Net assets:</u>						
Invested in capital assets, net of related debt	3,006,876	959,421	249,892	(1,914,227)	3,256,768	(954,806)
Restricted	7,159,519	8,501,551	-	-	7,159,519	8,501,551
Unrestricted	<u>1,524,116</u>	<u>1,875,893</u>	<u>5,074,747</u>	<u>7,886,368</u>	<u>6,598,863</u>	<u>9,762,261</u>
Total net assets	<u>\$ 11,690,511</u>	<u>\$ 11,336,865</u>	<u>\$ 5,324,639</u>	<u>\$ 5,972,141</u>	<u>\$ 17,015,150</u>	<u>\$ 17,309,006</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2003, the City's assets exceeded liabilities by \$17,015,150. This amounts to \$11,690,511 in governmental activities and \$5,324,639 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 76.9% of total governmental and business-type assets. Capital assets include land, land improvements, buildings, vehicles, machinery and equipment, construction in progress and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2003, were \$3,256,768. 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, \$7,159,519 or 42.1%, represent resources that are subject to external restrictions on how they may be used. Of the total restricted net assets, \$1,847,642 and \$2,218,094 are restricted for capital projects and debt service, respectively. \$6,598,863 of the government-wide unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
Unaudited

Table 2 below shows the changes in net assets for fiscal year 2003. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Table 2
Changes in Net Assets

	Governmental Activities <u>2003</u>	Business-Type Activities <u>2003</u>	Total <u>2003</u>
Revenues			
Program revenues:			
Charges for services	\$ 3,475,898	\$ 7,554,196	\$ 11,030,094
Operating grants, contributions, and interest	1,758,331	4,683	1,763,014
Capital grants and contributions	2,169,861	-	2,169,861
General revenues:			
Property and other taxes	1,291,588	-	1,291,588
Municipal income taxes	11,804,315	-	11,804,315
Grants and entitlements	2,590,280	-	2,590,280
Investment earnings	376,842	-	376,842
Miscellaneous	546,291	131,490	677,781
Total revenues	<u>24,013,406</u>	<u>7,690,369</u>	<u>31,703,775</u>
Program Expenses			
Governmental Activities:			
General government	5,945,709	-	5,945,709
Security of persons and property	8,791,482	-	8,791,482
Public health and welfare	717,764	-	717,764
Basic utility service	39,138	-	39,138
Leisure time activities	3,050,008	-	3,050,008
Economic development and assistance	1,128,945	-	1,128,945
Transportation	2,189,465	-	2,189,465
Urban redevelopment and housing	287,967	-	287,967
Other	406,813	-	406,813
Interest and fiscal charges	1,102,469	-	1,102,469
Business-type Activities:			
Wastewater	-	6,013,082	6,013,082
Solid waste	-	988,264	988,264
Golf course	-	1,336,525	1,336,525
Total program expenses	<u>23,659,760</u>	<u>8,337,871</u>	<u>31,997,631</u>
Change in net assets	<u>\$ 353,646</u>	<u>\$ (647,502)</u>	<u>\$ (293,856)</u>

**City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
Unaudited**

Governmental Activities

Governmental activities net assets increased \$353,646 in 2003 over 2002. This increase is due in a large part to capital contributions of \$552,950 received from local contractors, which have been classified as "capital grants and contributions" revenue on the statement of activities. These contributions have been capitalized within the governmental activities column in the government-wide statement of net assets.

Security of persons and property, which primarily supports the operations of the City's police, fire and emergency medical services, accounts for \$8,791,482 of expenses, or 37.2% of total governmental expenses of the City. These expenses were funded by \$463,382 in charges to users of services and operating and capital grants. General government expenses, which primarily include legislative, executive and financial management, totaled \$5,945,709 or 25.1% of total governmental expenses. General government expenses were covered by \$1,960,291 of direct charges to users, grants and entitlements, contributions and interest.

Overall, the State and Federal government contributed to the City's governmental revenues with \$6,518,472 in grants, entitlements and contributions, including interest earned on these resources. Of these revenues \$3,928,192 or 60.3% are restricted to a particular program or purpose

General revenues totaled \$16,609,360, and amounted to 69.2% of total revenues. These revenues primarily consist of property and income tax revenue of \$13,095,903, or 78.8% of total general revenues. The other primary source of general revenues is grants and entitlements not restricted to specific programs, with local government, local government revenue assistance and estate taxes making up a majority of the \$2,590,280, or 15.6% 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 \$7,558,879 and expenses of \$8,337,871 for fiscal year 2003. Business-type activities reported a change in net assets of (\$647,502) which was an increase of \$3,095,647 or 82.7% from 2002. This increase was possible with the reduction of personal and contractual services needed for operations.

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. Comparisons to fiscal year 2002 have not been presented since they are not available due to the initial implementation of GASB Statement No. 34.

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
Unaudited

Table 3
Program Expenses

	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Governmental Activities:		
General government	\$ 5,945,709	\$ (3,985,418)
Security of persons and property	8,791,482	(8,328,100)
Public health and welfare	717,764	29,001
Basic utility services	39,138	(138)
Leisure time activities	3,050,008	(1,994,410)
Economic development and assistance	1,128,945	(998,195)
Transportation	2,189,465	368,926
Urban redevelopment and housing	287,967	(262,690)
Other	406,813	(87,181)
Interest and fiscal charges	1,102,469	(997,465)
Business-type Activities:		
Wastewater treatment	6,013,082	(521,942)
Solid waste	988,264	319
Golf course	<u>1,336,525</u>	<u>(257,369)</u>
Total expenses	<u>\$ 31,997,631</u>	<u>\$ (17,034,662)</u>

The dependence upon general revenues for governmental activities is apparent, with 53.2% 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 \$1,616,283, a 4.8% increase from prior year. The primary reason for the increase of the general fund balance in 2003 was attributed to an increase in municipal income taxes received as the economy began to show improvement during the year. The fund balance of the Lincoln Center bond retirement debt service fund reported an increase of \$11,046, or 14.2% in 2003. This increase was caused primarily from the accrued interest earned on the issuance of bond anticipation notes. See Note 13 to the basic financial statements for a more detailed explanation of this issuance.

Budgeting Highlights - General Fund

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

The most significant budgeted governmental fund is the general fund. The most significant variance between revenue and final budgeted revenue amounts was to intergovernmental revenue. Actual amounts exceeded the final budgeted amounts by \$655,158. During 2003, the City received an unanticipated amount of estate tax in excess of their estimate by \$686,880.

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
Unaudited

Final budgeted expenditures increased \$613,405 or 4.4% over the original budgeted amounts. This increase was primarily caused by conservative budgeting procedures when determining the original budget with the estimated resources that are anticipated to be available.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the City had \$71,683,009 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings, vehicles, machinery and equipment, and infrastructure. Of this total, \$26,401,096 was reported in governmental activities and \$45,281,913 was reported in business-type activities. Table 4 below reports fiscal year 2002 balances compared to 2003:

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Land	\$ 8,054,603	\$ 8,045,267	\$ 3,052,637	\$ 3,052,637	\$ 11,107,240	\$ 11,097,904
Construction in progress	2,858,830	1,060,588	32,182,434	16,357,533	35,041,264	17,418,121
Land improvements	2,737,171	2,776,758	1,163,548	1,274,615	3,900,719	4,051,373
Buildings	10,062,282	10,417,113	3,458,388	3,652,617	13,520,670	14,069,730
Vehicles	1,028,138	1,303,229	221,471	270,048	1,249,609	1,573,277
Machinery and equipment	1,190,922	1,123,727	882,125	980,418	2,073,047	2,104,145
Infrastructure	469,150	-	4,321,310	4,407,502	4,790,460	4,407,502
Total	\$ 26,401,096	\$ 24,726,682	\$ 45,281,913	\$ 29,995,370	\$ 71,683,009	\$ 54,722,052

The only major changes in fiscal year 2003 to the total amount of capital assets were for governmental activities infrastructure and construction in progress. Under GASB Statement No. 34, the City has elected to "phase in" the retroactive reporting of infrastructure assets. The City plans to retroactively report infrastructure capital assets in the 2004 basic financial statements. Only infrastructure capital assets acquired or constructed in 2003 are reflected in the basic financial statements for the fiscal year ended December 31, 2003. 2003 additions to construction in progress for governmental activities represent expenditures incurred as the construction to 16th Street, Wales/Hill and Dales relocation and the Pedestrian Bridge projects continue. The most significant increase to business-type activities capital assets were reported within construction in progress as upgrades to the City's wastewater treatment services progressed. See Note 9 to the basic financial statements for detail on governmental and business-type activities capital assets.

Debt Administration

At December 31, 2003 the City had total long-term obligations outstanding of \$72,224,390. Of this total, \$5,954,586 is due within one year and \$66,269,804 is due in more than one year. Table 5 below summarizes the bonds and loans outstanding:

City of Massillon, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2003
Unaudited

Table 5
Outstanding Debt, at Fical Year End

	Governmental Activities		Business-Type Activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
General obligation bonds	\$ 16,330,000	\$ 16,600,000	\$ 7,966,233	\$ 8,201,233	\$ 24,296,233	\$ 24,801,233
Unamortized items	-	-	(297,922)	(336,997)	(297,922)	(336,997)
Bond anticipation notes	4,690,000	4,605,000	-	3,967,000	4,690,000	8,572,000
Special obligation debt	42,684	87,136	61,184	80,756	103,868	167,892
Loans payable	2,125,000	2,170,000	36,516,628	19,363,173	38,641,628	21,533,173
Special assessment bonds	<u>73,000</u>	<u>107,000</u>	<u>-</u>	<u>-</u>	<u>73,000</u>	<u>107,000</u>
Total	<u>\$ 23,260,684</u>	<u>\$ 23,569,136</u>	<u>\$ 44,246,123</u>	<u>\$ 31,275,165</u>	<u>\$ 67,506,807</u>	<u>\$ 54,844,301</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, 2003 the City's overall legal debt margin was \$29,660,123 with an unvoted debt margin of \$6,696,630. The City's credit rating remained unchanged in 2003 as compared to 2002. See Note 13 to the basic financial statements for details on the City's long-term obligations.

Current Issues Affecting Financial Condition

The City of Massillon is financially strong. Although the economic downturn has impacted the fund balances, the services that the City provides our citizens remained constant and efficient. Efficient uses of our workforce and cost containment measures have resulted in no layoffs of City employees during the recent economic downturn.

In fiscal year 2004, the City will continue to upgrade the wastewater treatment plant operations and various infrastructure improvements. Current outstanding contracts for these projects total \$6,821,614. See Note 20 of the basic financial statements for details on the City's major contractual commitments

Contacting the City's Financial Management

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

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City of Massillon, Ohio
Statement of Net Assets
December 31, 2003

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 5,375,658	\$ 4,078,143	\$ 9,453,801
Cash and cash equivalents:			
In segregated accounts	8,900	-	8,900
Receivables:			
Property and other taxes	1,664,449	-	1,664,449
Income tax	2,269,658	-	2,269,658
Accounts	640,879	1,268,038	1,908,917
Due from other governments	1,505,081	261,639	1,766,720
Special assessments	162,835	-	162,835
Accrued interest	281,055	-	281,055
Internal balances	100,000	(100,000)	-
Prepays	170,900	58,021	228,921
Materials and supplies inventory	141,461	17,489	158,950
Loans receivable	24,488	-	24,488
Notes receivable	3,430,752	-	3,430,752
Deferred charges	-	137,491	137,491
Nondepreciable capital assets	10,913,433	35,235,071	46,148,504
Depreciable capital assets, net	15,487,663	10,046,842	25,534,505
Total assets	<u>42,177,212</u>	<u>51,002,734</u>	<u>93,179,946</u>
<u>Liabilities:</u>			
Accounts payable	396,390	275,237	671,627
Accrued wages and benefits	551,702	103,886	655,588
Due to other governments	955,870	96,999	1,052,869
Deferred revenue	1,330,856	-	1,330,856
Accrued interest payable	199,353	26,495	225,848
Claims payable	3,618	-	3,618
Long-term liabilities:			
Due within one year	5,293,790	679,815	5,973,605
Due in more than one year	21,755,122	44,495,663	66,250,785
Total liabilities	<u>30,486,701</u>	<u>45,678,095</u>	<u>76,164,796</u>
<u>Net assets:</u>			
Invested in capital assets, net of related debt	3,006,876	249,892	3,256,768
Restricted for:			
Capital projects	1,847,642	-	1,847,642
Debt service	2,218,094	-	2,218,094
Other purposes	3,093,783	-	3,093,783
Unrestricted	1,524,116	5,074,747	6,598,863
Total net assets	<u>\$ 11,690,511</u>	<u>\$ 5,324,639</u>	<u>\$ 17,015,150</u>

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Activities
For the Year Ended December 31, 2003

	<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	\$ 5,945,709	\$ 1,891,712	\$ 33,051	\$ 35,528
Security of persons and property	8,791,482	306,189	96,762	60,431
Public health and welfare	717,764	137,937	116,309	492,519
Basic utility services	39,138	-	39,000	-
Leisure time activities	3,050,008	706,035	110,289	239,274
Economic development and assistance	1,128,945	-	130,750	-
Transportation	2,189,465	38,375	1,177,907	1,342,109
Urban redevelopment and housing	287,967	-	25,277	-
Other	406,813	290,646	28,986	-
Interest and fiscal charges	1,102,469	105,004	-	-
Total governmental activities	<u>23,659,760</u>	<u>3,475,898</u>	<u>1,758,331</u>	<u>2,169,861</u>
<u>Business-Type Activities:</u>				
Wastewater treatment	6,013,082	5,491,140	-	-
Solid waste	988,264	983,900	4,683	-
Golf course	1,336,525	1,079,156	-	-
Total business-type activities	<u>8,337,871</u>	<u>7,554,196</u>	<u>4,683</u>	<u>-</u>
Total primary government	<u>\$ 31,997,631</u>	<u>\$ 11,030,094</u>	<u>\$ 1,763,014</u>	<u>\$ 2,169,861</u>

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

Change in net assets
Net assets at beginning of year, restated (See Note - 3)
Net assets, 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
\$ (3,985,418)	\$ -	\$ (3,985,418)
(8,328,100)	-	(8,328,100)
29,001	-	29,001
(138)	-	(138)
(1,994,410)	-	(1,994,410)
(998,195)	-	(998,195)
368,926	-	368,926
(262,690)	-	(262,690)
(87,181)	-	(87,181)
(997,465)	-	(997,465)
<u>(16,255,670)</u>	<u>-</u>	<u>(16,255,670)</u>
-	(521,942)	(521,942)
-	319	319
-	(257,369)	(257,369)
<u>-</u>	<u>(778,992)</u>	<u>(778,992)</u>
<u>\$ (16,255,670)</u>	<u>\$ (778,992)</u>	<u>\$ (17,034,662)</u>
905,024	-	905,024
237,968	-	237,968
148,596	-	148,596
10,274,450	-	10,274,450
538,050	-	538,050
991,815	-	991,815
2,590,280	-	2,590,280
376,842	-	376,842
546,291	131,490	677,781
<u>16,609,316</u>	<u>131,490</u>	<u>16,740,806</u>
353,646	(647,502)	(293,856)
11,336,865	5,972,141	17,309,006
<u>\$ 11,690,511</u>	<u>\$ 5,324,639</u>	<u>\$ 17,015,150</u>

City of Massillon, Ohio
Balance Sheet
Governmental Funds
December 31, 2003

	General	Lincoln Center Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	\$ 662,643	\$ 88,800	\$ 4,401,797	\$ 5,153,240
Cash and cash equivalents:				
In segregated accounts	-	-	8,900	8,900
Receivables:				
Property and other taxes	1,317,883	-	346,566	1,664,449
Income taxes	1,796,812	-	472,846	2,269,658
Accounts	136,631	-	499,287	635,918
Due from other governments	892,434	-	612,647	1,505,081
Special assessments	-	-	162,835	162,835
Accrued interest	932	-	280,123	281,055
Interfund	75,000	-	25,000	100,000
Prepays	146,108	-	24,792	170,900
Materials and supplies inventory	104,172	-	37,289	141,461
Loans receivable	-	-	24,488	24,488
Notes receivable	-	-	3,430,752	3,430,752
Total assets	\$ 5,132,615	\$ 88,800	\$ 10,327,322	\$ 15,548,737
Liabilities:				
Accounts payable	\$ 118,615	\$ -	\$ 277,775	\$ 396,390
Accrued wages and benefits	449,267	-	102,435	551,702
Due to other governments	518,352	-	145,285	663,637
Deferred revenue	2,430,098	-	1,792,229	4,222,327
Total liabilities	3,516,332	-	2,317,724	5,834,056
Fund Balances:				
Reserved for encumbrances	-	-	2,511,515	2,511,515
Reserved for loans receivable	-	-	24,488	24,488
Reserved for notes receivable	-	-	3,430,752	3,430,752
Unreserved:				
Undesignated, reported in:				
General fund	1,616,283	-	-	1,616,283
Special revenue funds	-	-	1,643,133	1,643,133
Debt service fund	-	88,800	630,706	719,506
Capital projects funds	-	-	(230,996)	(230,996)
Total fund balances	1,616,283	88,800	8,009,598	9,714,681
Total liabilities and fund balances	\$ 5,132,615	\$ 88,800	\$ 10,327,322	\$ 15,548,737

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, 2003

Total governmental fund balances		\$ 9,714,681
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in funds		26,401,096
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in in the funds:		
Property and other taxes	\$ 224,396	
Municipal income taxes	853,936	
Investment Income	280,123	
Intergovernmental	851,364	
Special assessments	162,835	
Charges for services	518,817	
Total	2,891,471	2,891,471
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds		(199,353)
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.		223,761
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	\$ (16,330,000)	
Bond anticipation notes	(4,690,000)	
Special assessment bonds	(73,000)	
Loans payable	(2,125,000)	
Special obligation debt	(42,684)	
Capital lease payable	(133,536)	
Compensated absences/pension liability	(3,946,925)	
Total	(27,341,145)	(27,341,145)
Net assets of governmental activities		\$ 11,690,511

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, 2003

	General	Lincoln Center Bond Retirement	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property other taxes	\$ 998,323	\$ -	\$ 388,296	\$ 1,386,619
Municipal income taxes	9,849,996	-	2,390,267	12,240,263
Charges for services	344,784	-	717,195	1,061,979
Licenses and permits	298,503	-	108,203	406,706
Fines and forfeitures	1,111,601	-	557,804	1,669,405
Intergovernmental	2,669,511	-	4,041,448	6,710,959
Special assessments	-	-	25,409	25,409
Investment income	96,693	-	1,898	98,591
Other	235,522	-	671,875	907,397
Total revenues	<u>15,604,933</u>	<u>-</u>	<u>8,902,395</u>	<u>24,507,328</u>
<u>Expenditures:</u>				
Current:				
General government	5,248,651	-	517,385	5,766,036
Security of persons and property	7,352,334	-	995,043	8,347,377
Community environment	-	-	224,610	224,610
Public health and welfare	483,602	-	-	483,602
Basic utility services	-	-	39,138	39,138
Leisure time activities	-	-	2,646,306	2,646,306
Economic development and assistance	-	-	1,133,229	1,133,229
Transportation	842,410	-	1,227,304	2,069,714
Urban redevelopment and housing	-	-	287,967	287,967
Other	363,980	-	34,053	398,033
Capital outlay	-	-	2,021,447	2,021,447
Debt service:				
Principal retirement	28,743	3,045,000	1,989,298	5,063,041
Interest and fiscal charges	8,235	182,954	943,968	1,135,157
Bond issuance costs	-	14,158	11,342	25,500
Total expenditures	<u>14,327,955</u>	<u>3,242,112</u>	<u>12,071,090</u>	<u>29,641,157</u>
Excess of revenues over (under) expenditures	<u>1,276,978</u>	<u>(3,242,112)</u>	<u>(3,168,695)</u>	<u>(5,133,829)</u>
<u>Other financing sources (uses):</u>				
Proceeds from sale of notes	-	2,915,000	1,775,000	4,690,000
Accrued interest on bonds sold	-	14,158	11,342	25,500
Transfers in	-	324,000	908,998	1,232,998
Transfers out	(1,202,998)	-	(30,000)	(1,232,998)
Total other financing sources (uses)	<u>(1,202,998)</u>	<u>3,253,158</u>	<u>2,665,340</u>	<u>4,715,500</u>
Net change in fund balances	73,980	11,046	(503,355)	(418,329)
Fund balances at beginning of year, restated (See Note - 3)	<u>1,542,303</u>	<u>77,754</u>	<u>8,512,953</u>	<u>10,133,010</u>
Fund balances at end of year	<u>\$ 1,616,283</u>	<u>\$ 88,800</u>	<u>\$ 8,009,598</u>	<u>\$ 9,714,681</u>

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, 2003

Net change in fund balances - Total governmental funds \$ (418,329)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Net capital asset additions	\$ 2,559,353	
Depreciation expense	<u>(884,939)</u>	
Excess of net capital asset additions over depreciation expense		1,674,414

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	\$ (95,031)	
Municipal income taxes	(435,948)	
Investment income	280,123	
Intergovernmental revenue	(782,804)	
Special assessments	(22,754)	
Miscellaneous	<u>9,542</u>	
Net change in deferred revenues during the year		(1,046,872)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 5,063,041

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

Increase in compensated absences/pension liability	\$ (368,600)	
Decrease in accrued interest	<u>32,688</u>	
Total additional expenditures		(335,912)

The internal service fund used by management to charge the costs of medical, prescription drug, dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. 107,304

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities. (4,690,000)

Change in net assets of governmental activities \$ 353,646

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, 2003

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property and other taxes	\$ 924,467	\$ 1,149,967	\$ 1,137,983	\$ (11,984)
Municipal income taxes	10,052,278	10,014,599	9,671,144	(343,455)
Charges for services	346,590	345,291	350,732	5,441
Licenses and permits	340,777	339,500	293,877	(45,623)
Fines and forfeitures	1,120,370	1,116,171	1,106,537	(9,634)
Intergovernmental	1,976,054	1,969,948	2,625,106	655,158
Investment income	86,725	86,400	111,087	24,687
Other	175,658	175,000	232,804	57,804
Total revenues	15,022,919	15,196,876	15,529,270	332,394
<u>Expenditures:</u>				
Current:				
General government	5,495,973	5,639,667	5,458,863	180,804
Security of persons and property	6,985,018	7,297,700	7,260,429	37,271
Public health and welfare	603,244	476,799	475,572	1,227
Transportation	607,372	897,048	902,792	(5,744)
Other	371,721	365,519	364,511	1,008
Total expenditures	14,063,328	14,676,733	14,462,167	214,566
Excess of revenues over (under) expenditures	959,591	520,143	1,067,103	546,960
<u>Other financing sources (uses):</u>				
Advances in	281,053	280,000	205,000	(75,000)
Transfers out	(1,386,928)	(1,203,000)	(1,202,998)	2
Advances out	-	(205,000)	(205,000)	-
Total other financing sources (uses)	(1,105,875)	(1,128,000)	(1,202,998)	(74,998)
Net change in fund balances	(146,284)	(607,857)	(135,895)	471,962
Fund balances at beginning of year	390,426	390,426	390,426	-
Prior year encumbrances appropriated	220,907	220,907	220,907	-
Fund balances at end of year	\$ 465,049	\$ 3,476	\$ 475,438	\$ 471,962

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2003

	Business-Type Activities				Governmental Activities - Internal Service Fund
	Wastewater	Golf Course	Solid Waste	Total	
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 3,402,135	\$ 178,539	\$ 497,469	\$ 4,078,143	\$ 222,418
Receivables:					
Accounts	1,255,432	1,843	10,763	1,268,038	4,961
Due from other governments	261,639	-	-	261,639	-
Materials and supplies inventory	7,145	10,344	-	17,489	-
Prepays	42,217	9,783	6,021	58,021	-
Deferred charges	-	137,491	-	137,491	-
Total current assets	4,968,568	338,000	514,253	5,820,821	227,379
Non-current assets:					
Capital assets:					
Land	59,400	2,993,237	-	3,052,637	-
Construction in progress	32,182,434	-	-	32,182,434	-
Depreciable capital assets, net	7,652,453	2,312,309	82,080	10,046,842	-
Total non-current assets	39,894,287	5,305,546	82,080	45,281,913	-
Total assets	44,862,855	5,643,546	596,333	51,102,734	227,379
Liabilities:					
Current liabilities:					
Accounts payable	262,262	4,243	8,732	275,237	-
Accrued wages and benefits	65,697	7,359	30,830	103,886	-
Compensated absences payable	19,019	-	28,548	47,567	-
Due to other governments	60,724	13,625	22,650	96,999	-
Interfund payable	-	100,000	-	100,000	-
Accrued interest payable	1,548	24,947	-	26,495	-
Claims payable	-	-	-	-	3,618
Capital leases payable	95,664	48,166	-	143,830	-
General obligation bonds payable	150,000	70,000	-	220,000	-
OWDA loans payable	305,505	-	-	305,505	-
Total current liabilities	960,419	268,340	90,760	1,319,519	3,618
Long-term liabilities:					
Compensated absences payable	232,546	55,986	105,280	393,812	-
Unamortized discounts on bonds	-	(66,120)	-	(66,120)	-
Unamortized cost of refunding	-	(231,802)	-	(231,802)	-
Special obligation payable	-	61,184	-	61,184	-
Capital leases payable, net of current portion	342,218	1,928	-	344,146	-
OWDA loans payable, net of current portion	36,211,123	-	-	36,211,123	-
General obligation bonds payable, net of current portion	625,000	7,121,233	-	7,746,233	-
Total long-term liabilities	37,410,887	6,942,409	105,280	44,458,576	-
Total liabilities	38,371,306	7,210,749	196,040	45,778,095	3,618
Net assets:					
Invested in capital assets, net of related debt	2,164,777	(1,996,965)	82,080	249,892	-
Unrestricted	4,326,772	429,762	318,213	5,074,747	223,761
Total net assets	\$ 6,491,549	\$ (1,567,203)	\$ 400,293	\$ 5,324,639	\$ 223,761

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, 2003

	Business-Type Activities			Total	Governmental Activities - Internal Service Fund
	Wastewater	Golf Course	Solid Waste		
<u>Operating revenues:</u>					
Charges for services	\$ 5,491,140	\$ 1,079,156	\$ 983,900	\$ 7,554,196	\$ 132,070
Other	101,978	20,301	9,211	131,490	48,082
Total operating revenue	5,593,118	1,099,457	993,111	7,685,686	180,152
<u>Operating expenses:</u>					
Personal services	1,312,920	362,750	549,285	2,224,955	-
Fringe benefits	505,127	99,137	171,789	776,053	-
Contractual services	1,682,493	198,751	213,616	2,094,860	40,465
Supplies and materials	1,874,645	130,573	39,898	2,045,116	-
Claims	-	-	-	-	32,383
Other operating costs	187	-	857	1,044	-
Depreciation	545,325	179,601	12,819	737,745	-
Total operating expenses	5,920,697	970,812	988,264	7,879,773	72,848
Operating income (loss)	(327,579)	128,645	4,847	(194,087)	107,304
<u>Non-operating revenues (expenses):</u>					
Intergovernmental	-	-	4,683	4,683	-
Interest and fiscal charges	(92,385)	(365,713)	-	(458,098)	-
Total non-operating revenues (expenses):	(92,385)	(365,713)	4,683	(453,415)	-
Change in net assets	(419,964)	(237,068)	9,530	(647,502)	107,304
Net assets at beginning of year, restated (See Note - 3)	6,911,513	(1,330,135)	390,763	5,972,141	116,457
Net assets at end of year	\$ 6,491,549	\$ (1,567,203)	\$ 400,293	\$ 5,324,639	\$ 223,761

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2003

	Business-Type Activities				Governmental
	Wastewater	Golf Course	Solid Waste	Total	Activities - Internal Service Fund
Cash flows from operating activities:					
Cash received from customers	\$ 5,326,133	\$ 1,079,745	\$ 985,091	\$ 7,390,969	\$ 132,070
Cash received from other operating sources	101,778	20,505	9,496	131,779	48,082
Cash payments for employee services and benefits	(1,817,506)	(442,997)	(665,956)	(2,926,459)	(188,299)
Cash payments to suppliers for goods and services	(3,439,176)	(322,085)	(249,989)	(4,011,250)	-
Cash payments for other operating expenses	-	-	(877)	(877)	-
Net cash provided by (used for) operating activities	171,229	335,168	77,765	584,162	(8,147)
Cash flows from noncapital financing activities:					
Advances from other funds	-	25,000	-	25,000	-
Operating grants	-	-	4,683	4,683	-
Net cash provided by noncapital financing activities	-	25,000	4,683	29,683	-
Cash flows from capital and related financing activities:					
Proceeds of loans	17,449,096	-	-	17,449,096	-
Principal payment on notes and bonds	(440,641)	(4,057,000)	-	(4,497,641)	-
Interest payments on notes and bonds	-	(403,949)	-	(403,949)	-
Principal payments on capital lease	(98,600)	(47,856)	-	(146,456)	-
Principal payment on loans	-	(19,572)	-	(19,572)	-
Interest paid on loans	(92,684)	-	-	(92,684)	-
Acquisition of capital assets	(16,024,288)	-	-	(16,024,288)	-
Net cash provided by (used for) capital and related financing activities	792,883	(4,528,377)	-	(3,735,494)	-
Net increase (decrease) in cash and cash equivalents	964,112	(4,168,209)	82,448	(3,121,649)	(8,147)
Cash and cash equivalents at beginning of year	2,438,023	4,346,748	415,021	7,199,792	230,565
Cash and cash equivalents at end of year	\$ 3,402,135	\$ 178,539	\$ 497,469	\$ 4,078,143	\$ 222,418
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	\$ (327,579)	\$ 128,645	\$ 4,847	\$ (194,087)	\$ 107,304
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	545,325	179,601	12,819	737,745	-
Change in assets and liabilities:					
(Increase) decrease in assets:					
Accounts receivable	96,432	793	636	97,861	-
Due from other governments	(261,639)	-	840	(260,799)	-
Inventory of supplies	1,384	7,033	-	8,417	-
Prepaid items	(5,950)	(2,700)	4,746	(3,904)	-
Increase (decrease) in liabilities:					
Accounts payable	123,576	2,981	(1,241)	125,316	-
Accrued wages	4,349	(2,055)	10,664	12,958	-
Compensated absences	13,389	25,743	47,798	86,930	-
Due to other governments	(18,058)	(4,873)	(3,344)	(26,275)	-
Claims payable	-	-	-	-	(115,451)
Net cash provided by (used for) operating activities	\$ 171,229	\$ 335,168	\$ 77,765	\$ 584,162	\$ (8,147)

See accompanying notes to the basic financial statements.

City of Massillon, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2003

	Private Purpose Trust	Agency
<u>Assets:</u>		
Assets:		
Equity in pooled cash and cash equivalents	\$ 34,689	\$ 30,270
Cash and cash equivalents:		
In segregated accounts	-	146,461
Receivables:		
Property and other taxes	-	436,479
Due from other governments	-	22,079
Total assets	<u>\$ 34,689</u>	<u>\$ 635,289</u>
<u>Liabilities:</u>		
Deposits held and due to others	34,689	-
Due to other governments	-	599,385
Undistributed monies	-	35,904
Total liabilities	<u>\$ 34,689</u>	<u>\$ 635,289</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, 2003

	Private Purpose Trust
<u>Additions:</u>	
Interest	\$ -
<u>Deductions:</u>	
Payments in accordance with trust agreements	-
Change in net assets	-
Net assets at beginning of year	-
Net assets at end of year	<u>\$ -</u>

See accompanying notes to the basic financial statements.

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CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

1. DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

Reporting Entity

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

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, 2003**

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 Treatment fund The wastewater treatment 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 funds 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, 2003**

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 a 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, 2003**

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 an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and rentals.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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. 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, 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 2003, 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.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, 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.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies.

H. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General 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.

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:

The City's infrastructure consists of sanitary sewers and current year improvements to general infrastructure assets (i.e. roads and storm sewers). GASB Statement No. 34 requires *prospective* reporting of general infrastructure assets from the date the government first implements the Statement. The Statement creates a transition period for the retroactive reporting of major general infrastructure assets. Based on these guidelines, governments are not required to report major general infrastructure assets acquired, reconstructed, improved, etc. between 1980 and the year of implementation until 2006. Until this year, the only general infrastructure assets that will be capitalized will be for current additions.

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

I. 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.

J. 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.

K. 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.

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.

L. 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.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

M. Fund Balance Reserves

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

N. 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.

O. 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.

P. 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.

Q. 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 nonoperating 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."

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

R. 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.

S. 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.

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 amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts 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 amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For 2003, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences" and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At December 31, 2003, there was no effect on fund balance as a result of implementing GASB Statements No. 37, No. 38, or No. 41.

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2002, caused by the conversion to the accrual basis of accounting, and reclassification of funds based on guidance provided by GASB Statement No. 34. The government-wide financial statements split the City's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2002, caused by the conversion to the accrual basis of accounting.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The City restated the fund liability of compensated absences that had not matured during 2002.

B. Restatement of Fund Balance

The restatements for GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented. In addition to the implementation of GASB Statement No. 34, the City increased their capitalization threshold to \$5,000, made asset class reclassifications within activity types and began depreciating its governmental capital assets. This change in their policy required a restatement of capital assets.

	<u>General</u>	<u>Lincoln Center Bond Retirement</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balances,				
December 31, 2002	\$ 1,441,688	\$ 77,754	\$ 8,610,424	\$ 10,129,866
Fund reclassifications	-	-	(102,877)	(102,877)
Implementation of GASB				
Interpretation No. 6				
Compensated absences	<u>100,615</u>	<u>-</u>	<u>5,406</u>	<u>106,021</u>
Adjusted fund balances	<u>\$ 1,542,303</u>	<u>\$ 77,754</u>	<u>\$ 8,512,953</u>	10,133,010

GASB Statement No. 34 Adjustments:

Internal service fund equity	116,457
Capital assets	24,726,682
Long-term debt	(23,767,261)
Long-term liabilities	(3,578,325)
Accrued interest	(232,041)
Long-term (deferred) assets	<u>3,938,343</u>
Governmental activities net assets, December 31, 2002	<u>\$ 11,336,865</u>

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

The adjustment in capital assets had the following effect on net assets of the business-type activities as previously reported:

	Wastewater	Golf Course	Solid Waste	Total
Fund equity at				
December 31, 2002	\$ 5,417,568	\$ (1,697,665)	\$ 356,352	\$ 4,076,255
Adjustment for capital assets	1,493,945	367,530	34,411	1,895,886
Restated net assets as of				
December 31, 2002	\$ 6,911,513	\$ (1,330,135)	\$ 390,763	\$ 5,972,141

4. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balances is 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).

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

Net Change in Fund Balance	
GAAP Basis	\$ 73,980
Revenue Accruals	129,337
Expenditure Accruals	(158,934)
Encumbrances (Budget Basis)	
Outstanding at year end	(180,278)
Budget Basis	\$ (135,895)

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

5. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that 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;
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;

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

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

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

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

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

Deposits: At year-end, the City's carrying amount of deposits was \$9,239,121 and the bank balance was \$9,596,897. Of the bank balance, \$505,635 was covered by Federal Depository Insurance or by collateral held by the City's agent in the City's name. Of the remaining balance, \$9,091,262 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Investments: GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the City's investments be classified in categories of custodial credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

The only City investment at year-end was a repurchase agreement. These are Category 3 investments, with a carrying value and fair value of \$435,000. Interest earned on the deposits in the Massillon Bicentennial expendable trust fund, the Massillon Municipal Court agency fund and certain street maintenance and repair special revenue funds are recorded in those funds as required by trust agreements and state statute. All other interest is legally required to be placed in the general fund. Interest revenue credited to the general fund during the 2003 amounted to \$96,693, which includes \$92,491 assigned from other City funds.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

6. PROPERTY TAX

Property taxes include amounts levied against all real and public utility property, and tangible personal (used in business) property located in the City. Real property taxes were levied after October 1, 2002 on the assessed value as of January 1, 2002, the lien date, and were collected in 2003. 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 2003 attached as a lien on December 31, 2002, were levied after October 1, 2003, 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. 2003 tangible personal property taxes are levied after October 1, 2002, on the value listed as of December 31, 2002, and are collected in 2003. 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, 2003, was \$4.70 per \$1,000 of assessed valuation.

The assessed values upon which the 2003 taxes were collected are as follows:

<u>Property Category</u>	<u>2002 Assessed Value</u>	<u>Percent</u>
<u>Real Property</u>		
Residential and Agricultural	\$ 272,759,440	59.4 %
Commercial, Industrial, Mineral	84,805,140	18.5
Public Utilities	101,160	0.0
<u>Tangible Personal Property</u>		
General	77,736,038	16.9
Public Utilities	<u>23,868,080</u>	<u>5.2</u>
Total	<u>\$ 459,269,858</u>	<u>100.0 %</u>

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

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

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility, and tangible personal property taxes, which became measurable as of December 31, 2003. However, since these tax collections will not be received during the available period nor are they intended to finance 2003 operations, the receivable is offset by a credit to deferred revenue.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

7. INCOME TAX

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

8. RECEIVABLES

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

<u>Revenue description</u>	<u>Amount</u>
Cents per gallon and excise tax	\$ 492,339
Homestead and rollback	92,877
Local government	786,701
Miscellaneous grants	59,329
Motor vehicle tax	15,735
Tangible exemption	6,124
Waste management grant	16,000
WIC reimbursements	<u>14,748</u>
 Total	 <u><u>\$ 1,483,853</u></u>

9. CAPITAL ASSETS

The capital asset balances of the governmental and business-type activities have been restated due to changes in asset classification, the capitalization threshold and accumulated depreciation (See Note 3 for details).

<u>Governmental Activities</u>	<u>Balance</u>	<u>Adjustments</u>	<u>Restated</u>
	<u>12/31/2002</u>		<u>Balance</u>
		<u>1/1/2003</u>	
Land	\$ 5,492,528	\$ 2,552,739	\$ 8,045,267
Land improvements	5,799,446	(2,663,256)	3,136,190
Buildings	14,711,149	(701,819)	14,009,330
Vehicles	4,463,517	(680,402)	3,783,115
Machinery and equipment	1,849,373	232,994	2,082,367
Construction in progress	-	1,060,588	1,060,588
Less: Accumulated depreciation	<u>-</u>	<u>(7,390,175)</u>	<u>(7,390,175)</u>
 Total	 <u><u>\$ 32,316,013</u></u>	 <u><u>\$ (7,589,331)</u></u>	 <u><u>\$ 24,726,682</u></u>

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

<u>Business - Type Activities</u>	<u>Balance 12/31/2002</u>	<u>Adjustments</u>	<u>Restated Balance 1/1/2003</u>
Land	\$ 2,681,598	\$ 371,039	\$ 3,052,637
Land improvements	2,141,053	(23,627)	2,117,426
Buildings	8,317,364	(3,950)	8,313,414
Vehicles	1,114,985	(103,309)	1,011,676
Machinery and equipment	2,303,109	(122,104)	2,181,005
Infrastructure	9,393,360	(12,963)	9,380,397
Construction in progress	14,875,061	1,482,472	16,357,533
Less: Accumulated depreciation	<u>(12,727,046)</u>	<u>308,328</u>	<u>(12,418,718)</u>
Total	<u>\$ 28,099,484</u>	<u>\$ 1,895,886</u>	<u>\$ 29,995,370</u>

Capital asset activity for the year ending December 31, 2003 was as follows:

Governmental Activities: A summary of the governmental activities' capital assets as of December 31, 2003 follows:

<u>Governmental Activities</u>	<u>Restated Balance 1/1/2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/2003</u>
Capital assets, not being depreciated:				
Land	\$ 8,045,267	\$ 9,336	\$ -	\$ 8,054,603
Construction in progress	<u>1,060,588</u>	<u>1,798,242</u>	<u>-</u>	<u>2,858,830</u>
Total capital assets, not being depreciated	<u>9,105,855</u>	<u>1,807,578</u>	<u>-</u>	<u>10,913,433</u>
Capital assets, being depreciated:				
Land improvements	3,136,190	39,970	-	3,176,160
Buildings	14,009,330	-	-	14,009,330
Vehicles	3,783,115	-	(22,502)	3,760,613
Machinery and equipment	2,082,367	236,022	-	2,318,389
Infrastructure	<u>-</u>	<u>490,825</u>	<u>-</u>	<u>490,825</u>
Total capital assets, being depreciated	<u>23,011,002</u>	<u>766,817</u>	<u>(22,502)</u>	<u>23,755,317</u>
Less accumulated depreciation:				
Land improvements	(359,432)	(79,557)	-	(438,989)
Buildings	(3,592,217)	(354,831)	-	(3,947,048)
Vehicles	(2,479,886)	(260,049)	7,460	(2,732,475)
Machinery and equipment	(958,640)	(168,827)	-	(1,127,467)
Infrastructure	<u>-</u>	<u>(21,675)</u>	<u>-</u>	<u>(21,675)</u>
Total accumulated depreciation	<u>(7,390,175)</u>	<u>(884,939)</u>	<u>7,460</u>	<u>(8,267,654)</u>
Total capital assets being depreciated, net	<u>15,620,827</u>	<u>(118,122)</u>	<u>(15,042)</u>	<u>15,487,663</u>
Governmental activities capital assets, net	<u>\$ 24,726,682</u>	<u>\$ 1,689,456</u>	<u>\$ (15,042)</u>	<u>\$ 26,401,096</u>

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

Depreciation Expense: Depreciation expense charged to governmental functions for the year ending December 31, 2003 is as follows:

<u>Depreciation Expense:</u>	
General government	\$ 149,934
Security of persons and property	199,064
Public health and welfare	3,317
Leisure time activities	425,637
Economic development and assistance	638
Transportation	<u>106,349</u>
Total depreciation expense	<u>\$ 884,939</u>

Business-type Activities: A summary of the business-type activities' capital assets as of December 31, 2003 follows:

<u>Business-Type Activities</u>	<u>Restated balance 1/1/2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/2003</u>
Capital assets, not being depreciated:				
Land	\$ 3,052,637	\$ -	\$ -	\$ 3,052,637
Construction in progress	<u>16,357,533</u>	<u>15,824,901</u>	<u>-</u>	<u>32,182,434</u>
Total capital assets, not being depreciated	<u>19,410,170</u>	<u>15,824,901</u>	<u>-</u>	<u>35,235,071</u>
Capital assets, being depreciated:				
Land improvements	2,117,426	-	-	2,117,426
Buildings	8,313,414	-	-	8,313,414
Infrastructure	9,380,397	148,674	-	9,529,071
Vehicles	1,011,676	-	-	1,011,676
Machinery and equipment	<u>2,181,005</u>	<u>50,713</u>	<u>-</u>	<u>2,231,718</u>
Total capital assets, being depreciated	<u>23,003,918</u>	<u>199,387</u>	<u>-</u>	<u>23,203,305</u>
Less accumulated depreciation:				
Land improvements	(842,811)	(111,067)	-	(953,878)
Buildings	(4,660,797)	(194,229)	-	(4,855,026)
Infrastructure	(4,972,895)	(234,866)	-	(5,207,761)
Vehicles	(741,628)	(48,577)	-	(790,205)
Machinery and equipment	<u>(1,200,587)</u>	<u>(149,006)</u>	<u>-</u>	<u>(1,349,593)</u>
Total accumulated depreciation	<u>(12,418,718)</u>	<u>(737,745)</u>	<u>-</u>	<u>(13,156,463)</u>
Total capital assets being depreciated, net	<u>10,585,200</u>	<u>(538,358)</u>	<u>-</u>	<u>10,046,842</u>
Business-type activities capital assets, net	<u>\$ 29,995,370</u>	<u>\$ 15,286,543</u>	<u>\$ -</u>	<u>\$ 45,281,913</u>

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

10. CAPITAL LEASES

The City leases various vehicles and equipment through capital leasing arrangements in the governmental and proprietary fund types. The assets and obligations for agreements of the governmental funds are recorded in the statement of net assets. Governmental capital assets attributable to capital leases consist of vehicles in the amount of \$577,243 and machinery and equipment in the amount of \$140,894. There are also \$158,912 in vehicles, and \$438,849 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, 2003.

<u>Year</u>	<u>Governmental Activity</u>	<u>Business-Type Activity</u>
2004	\$ 46,022	\$ 165,603
2005	27,935	117,749
2006	27,935	114,377
2007	27,935	83,803
2008	<u>20,951</u>	<u>62,852</u>
Total minimum lease payment	150,778	544,384
Less: amount representing interest	<u>17,242</u>	<u>56,408</u>
Present value of minimum lease payments	<u>\$ 133,536</u>	<u>\$ 487,976</u>

11. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund transfers for the year ended December 31, 2003, consisted of the following:

<u>Transfers To</u>	<u>Transfers From</u>		<u>Total</u>
	<u>General</u>	Nonmajor <u>Governmental Funds</u>	
Lincoln Center bond retirement	\$ 324,000	\$ -	\$ 324,000
Nonmajor governmental funds	<u>878,998</u>	<u>30,000</u>	<u>908,998</u>
Total	<u>\$ 1,202,998</u>	<u>\$ 30,000</u>	<u>\$ 1,232,998</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.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

In the year ended December 31, 2003, the City made transfers totaling \$878,998 from the general fund to the police and fire pension funds, a summer concert fund and two debt service funds. In addition, the general fund transferred \$324,000 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, 2003 consisted of the following:

	Interfund Receivable	Interfund Payable
General fund	\$ 75,000	\$ -
Golf course fund	-	100,000
Nonmajor governmental fund	25,000	-
Totals	\$ 100,000	\$ 100,000

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, 2003, all interfund loans outstanding are anticipated to be repaid by 2006. The golf course fund will pay back the general and park and recreation fund as shown below:

Fund	2004	2005	2006
General	\$ 5,000	20,000	50,000
Park and recreation	\$ 5,000	10,000	10,000

12. CONDUIT DEBT OBLIGATIONS

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

13. BONDED DEBT AND OTHER LONG-TERM OBLIGATIONS

A listing of changes in the bonds and other long-term obligations of the City for the year ended December 31, 2003 follows:

	<u>Balance 1/1/2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2003</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
<u>General Obligation Bonds</u>					
2002 Lincoln Center					
Phase II Refunding, 1.5 - 4%	\$ 3,065,000	-	(215,000)	2,850,000	225,000
1994 Senior Center, 8.00 - 8.50%	1,195,000	-	(20,000)	1,175,000	20,000
2002 Park and Recreation, 5.2%	12,340,000	-	(35,000)	12,305,000	55,000
Total General Obligation	<u>16,600,000</u>	<u>-</u>	<u>(270,000)</u>	<u>16,330,000</u>	<u>300,000</u>
<u>Bond Anticipation Notes</u>					
2003 Marketplace Infrastructure, 1.95%	-	1,775,000	-	1,775,000	1,775,000
2003 Lincoln Center III, 2.08%	-	1,612,000	-	1,612,000	1,612,000
2003 Lincoln Center III, 1.88%	-	1,303,000	-	1,303,000	1,303,000
2002 TIF Engineering Cost Marketplace Infrastructure, 2.35%	1,775,000	-	(1,775,000)	-	-
2002 Lincoln Center III, 3.35%	1,271,000	-	(1,271,000)	-	-
2002 Lincoln Center III, 2.47%	1,559,000	-	(1,559,000)	-	-
Total Bond Anticipation	<u>4,605,000</u>	<u>4,690,000</u>	<u>(4,605,000)</u>	<u>4,690,000</u>	<u>4,690,000</u>
<u>Special Assessment Bonds</u>					
1985 Street Improvements, 9.125%	27,000	-	(9,000)	18,000	9,000
1995 Castle West Circle and Shaw Ave, 5.50%	80,000	-	(25,000)	55,000	25,000
Total Special Assessment	<u>107,000</u>	<u>-</u>	<u>(34,000)</u>	<u>73,000</u>	<u>34,000</u>
<u>Loans Payable</u>					
1999 HUD Section 108	2,170,000	-	(45,000)	2,125,000	45,000
<u>Special Obligation Debt</u>					
1993 State Hospital, 0.0%	87,136	-	(44,452)	42,684	-
<u>Other Obligations</u>					
Police and firemen's pension liability	1,629,205	-	(24,004)	1,605,201	25,035
Long-term compensated absences	1,949,120	144,583	(44,212)	2,049,491	160,856
Capital lease payable	198,125	-	(64,589)	133,536	38,899
Total Governmental Activities	<u>\$ 27,345,586</u>	<u>4,834,583</u>	<u>(5,131,257)</u>	<u>27,048,912</u>	<u>5,293,790</u>

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

	Balance 1/1/2003	Additions	Reductions	Balance 12/31/2003	Due within one year
<u>Business-Type Activities</u>					
<u>General Obligation Bonds</u>					
2002 Wasterwater Refunding					
Series 88, 1.5 - 3.0%	\$ 920,000	-	(145,000)	775,000	150,000
2002 Golf Course Construction					
Refunding, 1.5 - 7.16%	7,281,233	-	(90,000)	7,191,233	70,000
Unamortized Discount	(70,292)	-	4,172	(66,120)	(4,131)
Unamortized Deferred Cost	(266,705)	-	34,903	(231,802)	(32,956)
Total General Obligation	<u>7,864,236</u>	<u>-</u>	<u>(195,925)</u>	<u>7,668,311</u>	<u>182,913</u>
<u>Bond Anticipation Notes</u>					
Legends, 2.10%	3,767,000	-	(3,767,000)	-	-
Legends, 3.50%	200,000	-	(200,000)	-	-
Total Bond Anticipation	<u>3,967,000</u>	<u>-</u>	<u>(3,967,000)</u>	<u>-</u>	<u>-</u>
<u>Special Obligation Debt</u>					
2001 State Hospital, 0%	80,756	-	(19,572)	61,184	-
<u>Loans Payable</u>					
Sanitary Sewer WPC, 3.81%	1,284,187	-	(52,787)	1,231,400	54,817
Wastewater Plant WPC, 3.2%	752,320	-	(242,854)	509,466	250,688
WWTP Upgrade OWDA, 0.00%	4,214,698	1,668,090	-	5,882,788	-
WWTP Upgrade OWDA, 1.26%	13,111,968	15,781,006	-	28,892,974	-
Total Loans	<u>19,363,173</u>	<u>17,449,096</u>	<u>(295,641)</u>	<u>36,516,628</u>	<u>305,505</u>
<u>Other Long-term Obligations</u>					
Capital leases	634,432	-	(146,456)	487,976	143,830
Compensated absences	354,449	94,696	(7,766)	441,379	47,567
Total Business-Type Activities	<u>\$ 32,264,046</u>	<u>17,543,792</u>	<u>(4,632,360)</u>	<u>45,175,478</u>	<u>679,815</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 general obligation bond retirement fund. The general obligation bonds reported as enterprise 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.

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

Bond Anticipation Notes: During 2003, bond anticipation notes were issued for \$2,915,000 to finance the construction of the Lincoln Center complex. The bond anticipation notes were issued to encourage development in a redevelopment area. Revenues for payment of interest and principal on the bond result from service payments being made in lieu of taxes. Also, during 2003, a bond anticipation note was issued for \$1,775,000 to finance the construction of the Marketplace Infrastructure.

Loans Payable: The City has received (1999 and 2000) 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 Grants 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, 2003, the City has received \$34,775,762 of the proceeds. An amortization schedule is not presented since repayment is not required until all proceeds has been received.

Special Obligation: During 1993, the City acquired eighty-eight acres of land from the Massillon Psychiatric Center in exchange for City services equal to the fair market value of the land, which was \$450,900. The City will provide the services over the next several years. During 2001, the City acquired another piece of land from Massillon Psychiatric Center in exchange for services and a yearly payment of approximately \$25,712. The sum of the mowing services and the yearly payment equal the fair market value of the land, which was \$154,272 will be provided over the next three years.

The annual requirements to amortize all governmental activity debt outstanding as of December 31, 2003, including interest payments, are as follows:

Year	General Obligation Bonds		Section 108 Loan	
	Principal	Interest	Principal	Interest
2004	\$ 300,000	\$ 810,646	\$ 45,000	\$ 164,863
2005	330,000	803,374	50,000	161,646
2006	355,000	794,524	55,000	158,076
2007	380,000	783,432	55,000	154,154
2008	415,000	770,578	60,000	150,183
2009-2013	3,255,000	3,542,950	375,000	677,541
2014-2018	2,735,000	2,602,888	520,000	512,907
2019-2023	2,655,000	1,915,525	965,000	76,795
2024-2028	3,415,000	1,151,000	-	-
2029-2031	2,490,000	253,000	-	-
Total	<u>\$ 16,330,000</u>	<u>\$ 13,427,917</u>	<u>\$ 2,125,000</u>	<u>\$ 2,056,165</u>

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

Year	Special Assessment Bonds	
	Principal	Interest
2004	\$ 34,000	\$ 4,668
2005	39,000	2,471
Total	\$ 73,000	\$ 7,139

The annual requirements to amortize all business-type debt outstanding as of December 31, 2003, including interest payments, are as follows:

Year	General Obligation Bonds		Water Pollution Control Loans	
	Principal	Interest	Principal	Interest
2004	\$ 220,000	\$ 311,962	\$ 305,505	\$ 60,712
2005	215,000	308,223	315,700	50,518
2006	320,000	303,923	59,116	42,101
2007	355,000	296,402	61,389	39,827
2008	365,000	286,995	63,750	37,466
2009-2013	1,025,809	1,605,256	357,472	148,610
2014-2018	1,390,424	1,265,986	431,715	74,367
2019-2023	1,280,000	855,750	146,219	5,606
2024-2028	1,625,000	516,563	-	-
2029-2031	1,170,000	113,050	-	-
Total	\$ 7,966,233	\$ 5,864,110	\$ 1,740,866	\$ 459,207

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

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

Debt Refundings: On November 1, 2002, the City issued \$3,065,000 in General Obligation Bonds with an average interest rate of 2.75% to advance refund \$2,805,000 of outstanding Lincoln Center 1994 Series bonds with an average interest rate of 5%. The net proceeds were used to purchase U.S. governmental 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. governmental securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide future debt service payments on the Sewer System 1988 Series bonds and the Legends Golf Course 1995 Series bonds. As a result, the Sewer System 1988 Series bonds and Legends Golf Course 1995 Series bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

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.

14. DEFINED BENEFIT PENSION PLANS

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

OPERS: OPERS administers three separate pension plans, the Traditional Pension Plan (TP), a cost-sharing multiple-employer defined benefit pension plan and the Member-Directed Plan (MD), which is a defined contribution plan in which the member invest 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 (CO), 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.

Plan members are required to contribute 8.5% of their annual covered salary to fund pension obligations. In January 2001, House Bill 416 divided the OPERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the OPERS law enforcement program were placed in a newly named public safety division and continued to contribute at 9%. For 2003, the employer pension contribution rate for the City was 8.55% of covered payroll. The 2003 employer contribution rate for both the law enforcement and public safety divisions was 16.70% of covered payroll, with 11.70% to fund pension obligations. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to OPERS for the years ending December 31, 2003, 2002, and 2001 were \$696,871, \$676,768 and \$687,013, respectively. The full amount has been contributed for 2002 and 2001. Approximately 65% had been contributed for 2003 with the remainder being reported as a liability within the respective funds.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

OP&F: Plan members are required to contribute 10% of their covered salary to fund pension obligations, while employers are required to contribute 19.5% and 24.0%, respectively, for police officers and firefighters. Contributions are authorized by state statute. The City's required contributions to OP&F for the years ending December 31, 2003, 2002, and 2001 were \$657,725, \$641,845 and \$762,527, respectively. The full amount has been contributed for 2002 and 2001. Approximately 73% has been contributed for 2003 with the remainder being reported as a liability within the respective funds.

15. POSTEMPLOYMENT BENEFITS

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

In order to qualify for post-retirement health care coverage, age and service retirees 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. "Disclosure of Information on Post employment Benefits other than Pension Benefits by State and Local Government Employers". 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 2003 employer contribution rate for local government employers was 13.55% of covered payroll and 5.00% was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2003 employer rate was 16.70% of covered payroll and 5.00% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The City's contribution actually made to fund post employment benefits was \$407,527.

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 actual 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 2002 (latest information available) was 8.00%. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase 4.0% annually.

At year-end 2003, the number of active contributing participants in the TP and CO Plans totaled 364,881. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002 (latest information available) was \$10.0 billion.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

In December 2001, the OPERS Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

In response to the adverse investment returns experience by the OPERS from 2000 through 2002, and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

The Ohio Police and Fire Pension Fund (OP&F) provides post retirement health care coverage, also referred to as Other Post Employment Benefits (OPEB), to any person who received or is eligible to receive a monthly 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-time 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 the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that the health care costs are paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go-basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the post-employment health care program during 2003. For 2003 the percent used to fund healthcare was 7.75%. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2003 that were used to fund post-employment benefits were \$366,821. The OP&F total health care expense for the year ended December 31, 2002, the last actuarial valuation available, was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

16. RISK MANAGEMENT

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

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

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

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$ 25,288,098	\$ 20,174,977
Liabilities	<u>(12,872,985)</u>	<u>(8,550,749)</u>
Retained earnings	<u>\$ 12,415,113</u>	<u>\$ 11,624,228</u>
<u>Property Coverage</u>		
Assets	\$ 3,158,813	\$ 2,565,408
Liabilities	<u>(792,061)</u>	<u>(655,318)</u>
Retained earnings	<u>\$ 2,366,752</u>	<u>\$ 1,910,090</u>

The City uses an internal service fund to record and report its self-funded health care insurance program. During the year the City changed its medical health insurance and is no longer self-insured, rather the City is now commercially insured. The City remains self insured for vision and dental coverage for employees. The claims liability of \$468 reported in the fund at December 31, 2003, 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 2002 and 2003 were:

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

		Balance at beginning of year	Current year claims	Claim payments	Balance at end of year
2002	\$	107,374	1,099,206	1,087,511	119,069
2003	\$	119,069	32,383	147,834	3,618

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

17. JOINTLY GOVERNED AND JOINT VENTURE ORGANIZATIONS

Jointly Governed

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.

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.

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

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 2003, 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.

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 2003, the City made contributions of \$375,576, but does not have an equity interest in LOGIC. Financial statements of LOGIC may be obtained from Local Organized Governments in Cooperation, Canton, Ohio.

18. FUND DEFICITS

As of December 31, 2003, the Legends Golf Course enterprise fund had a deficit net asset balance of \$1,567,203. This deficit was a result of the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances in other funds, however, this is done when cash is needed rather than when accruals occur.

19. CONTINGENT LIABILITIES

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

CITY OF MASSILLON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003**

20. CONTRACTUAL COMMITMENTS

The City had several outstanding construction projects as of December 31, 2003. These projects are evidenced by contractual commitments with contractors and include:

	Spent to <u>date</u>	Commitment <u>remaining</u>
Wastewater Treatment Plant Upgrade	\$ 31,435,386	\$ 5,405,727
Pedestrian Bridge	354,542	76,999
Wales/Hills and Dales Road Relocation	1,245,346	316,923
16th Street Reconstruction Project	<u>1,258,943</u>	<u>1,021,965</u>
Totals	<u>\$ 34,294,217</u>	<u>\$ 6,821,614</u>

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

21. SUBSEQUENT EVENT

In February 2004, the City issued \$1,775,000 and \$2,915,000 of bonds and bond anticipation notes to provide funding for the construction of the Marketplace Infrastructure and for the Lincoln Way Phase III projects, respectively. The bonds for the Marketplace Infrastructure project have interest rates of 1.50 to 4.20% and mature in 2023. The bond anticipation notes, issued in anticipation of issuing general obligation bonds for the Lincoln Way Phase III project, have a 1.55% interest rate and mature in December 2004.

CITY OF MASSILLON
STARK COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2003

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>				
<i>Passed Through Ohio Department of Education and the City of Canton</i>				
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	01-76201FCL389	10.557	\$107,096	\$111,599
Child and Adult Care Food Programs	092965-CCCN-2003	10.558	25,572	25,572
	092965-CCCN-2004		2,357	2,357
	092965-CCMO-2003		25,176	25,176
	092965-CCMO-2004		33,595	33,595
Total Child and Adult Care Food Programs			86,700	86,700
Summer Food Service Program for Children	092965-23NP-2003	10.559	28,295	28,295
	092965-24NP-2003		2,955	2,955
Total Summer Food Service Program			31,250	31,250
Total U.S. Department of Agriculture			225,046	229,549
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>				
<i>Passed Through Ohio Department of Transportation</i>				
Highway Planning and Construction	03N082-9527	20.205	131,446	153,137
	02N084-21721		1,059,233	1,022,620
Total Highway Planning and Construction			1,190,679	1,175,757
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
<i>Direct</i>				
Community Development Block Grants/Entitlement Grants		14.218	968,902	1,043,133
<i>Passed Through Stark County HOME Consortium</i>				
HOME Investment Partnerships Program	M02DC390204	14.239	153,022	269,439
Total U.S. Department of Housing and Urban Development			1,121,924	1,312,572
<u>U.S. DEPARTMENT OF JUSTICE:</u>				
<i>Direct</i>				
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grant		16.580	7,440	8,885
<i>Passed Through Ohio Office of Criminal Justice Services</i>				
Local Law Enforcement Block Grants Program	03-LBVX-0305	16.592	25,104	6,594
	02-LBVX			37,443
	01-LBVX-2327			
Total Local Law Enforcement Block Grants Program			25,104	44,037
Violence Against Women Formula Grants	2002WFVA2-8225	16.588	24,796	39,445
Total U.S. Department of Justice			57,340	92,367
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>				
<i>Passed Through the Ohio Department of Health</i>				
Bioterrorism Grant	76-2-001-2-BI-04	93.238	5,715	6,330
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>				
<i>Passed Through the Ohio Department of Public Safety</i>				
Public Assistance Grant	1484-DR-151-48244	97.036	35,528	10,326
<i>Direct</i>				
Assistance to Firefighters		97.044	42,915	40,692
Total U.S. Department of Homeland Security			78,443	51,018
<u>U.S. DEPARTMENT OF INTERIOR:</u>				
<i>Passed Through Cuyahoga Valley and Ohio and Erie Canal Association</i>				
Ohio and Erie Canal Grant	N/A	15.AAA	66,148	
Totals			\$2,745,295	\$2,867,593

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

**CITY OF MASSILLON
STARK COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - SUBRECIPIENTS

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

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

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

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

These loans are collateralized by a deed of trust of mortgage in favor of the City upon all land, buildings, fixtures, equipment, and other assets of the applicant comprising the project, and by the applicant's personal guarantee of repayment, unconditionally and irrevocably guaranteeing repayment of the revolving loan funds of the City. At December 31, 2003, the gross amount of loans outstanding under this program was \$2,268,044. Of this balance, \$24,488 is presented on the Balance Sheet as "Loans Receivable" and \$2,243,556 is presented on the Balance Sheet as "Notes Receivable" since the City actually holds a mortgage note for the amount loaned to the developer.

NOTE D - MATCHING REQUIREMENTS

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

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

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



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL 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, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 30, 2004 in which we noted the City adopted Governmental Accounting Standards Board Statement No. 34 and errors in the classifications of capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the City's management in a separate letter dated September 30, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the City's management in a separate letter dated September 30, 2004.

111 Second St., NW / Fourth Floor / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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

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

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

Betty Montgomery
Auditor of State

September 30, 2004



Auditor of State Betty Montgomery

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

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

To the Honorable Mayor and City Council:

Compliance

We have audited the compliance of the City of Massillon, Stark County, Ohio, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2003. The City's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003.

Internal Control Over Compliance

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

111 Second St., NW / Fourth Floor / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the City in a separate letter dated September 30, 2004.

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

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

Betty Montgomery
Auditor of State

September 30, 2004

**CITY OF MASSILLON
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
DECEMBER 31, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

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, 2003

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Fixed Assets	Yes	



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
OCTOBER 7, 2004**