



**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**MASSILLON CITY SCHOOL DISTRICT
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.....	12
Statement of Activities.....	13
Fund Financial Statements:	
Balance Sheet	
Governmental Funds	14
Statement of Revenues, Expenditures and Changes in Fund Balances	
Governmental Funds	16
Statement of Revenues, Expenditures and Changes	
in Fund Balance – Budget (Non-GAAP Basis) and Actual	
General Fund.....	18
Statement of Fiduciary Net Assets	
Agency Fund.....	19
Statement of Changes in Fiduciary Net Assets	
Private Purpose Trust Fund.....	20
Notes to the Basic Financial Statements	21
Schedule of Receipts and Expenditures of Federal Awards.....	49
Notes to the Schedule of Receipts and Expenditures of Federal Awards	50
Independent Accountants' Report on Compliance and on	
Internal Control Required by <i>Government Auditing Standards</i>	51
Independent Accountants' Report on Compliance with Requirements	
Applicable to Each Major Federal Program and on Internal Control Over	
Compliance in Accordance with OMB Circular A-133	53
Schedule of Findings.....	55
Schedule of Prior Audit Findings.....	58

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the Massillon City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate discretely presented component unit and the remaining fund information of Massillon City School District, Stark County, Ohio, as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 B, the capital appreciation bond portion of the 1994 High School bond was reported incorrectly as a serial bond. Accordingly, the Governmental Activities net asset balance as of July 1, 2003 was restated to correct for this error.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis and is not a required part of the basic financial statements. We subjected the schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

February 11, 2005

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

It is a privilege to present to you the financial picture of the Massillon City School District (School District). The discussion and analysis of Massillon City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- ◆ In total, net assets of governmental activities increased \$2,010,520.
- ◆ Revenues for governmental activities totaled \$44,484,190 in 2004. Of this total, \$35,347,594 or approximately 79.46 percent consisted of general revenues while program revenues accounted for the balance of \$9,136,596 or approximately 20.54 percent.
- ◆ Total assets of governmental activities increased by \$3,124,696 which includes a cash and cash equivalent increase of \$3,642,113, an intergovernmental receivable decrease of \$7,738,358 and an increase in capital assets of \$5,919,575.
- ◆ The School District had \$42,473,670 in expenses related to governmental activities; only \$9,136,596 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and school foundation) of \$35,347,594 were adequate to provide for these programs.
- ◆ Program expenses totaled \$42,473,670. Instructional expenses made up \$22,525,210 or 53.03 percent of this total while support services accounted for \$15,547,235 or 36.61 percent. Other expenses, \$4,401,225 rounded out the remaining 10.36 percent.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Massillon City School District as an entire operating entity. The statements begin at a summary level and expand to detailed financial activities.

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

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

The *Statement of Net Assets* and the *Statement of Activities* answer these questions. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets states to the readers whether or not the School District's financial situation has improved or declined. The causes of these changes may be the result of many factors; some financial, some not. A few of those variables may include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and numerous other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non-instructional services, operation of food service, extracurricular activities, and interest and fiscal charges.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The School District as a Whole

You may recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:

Table 1
 Net Assets
 Governmental Activities

	2004	2003
Assets		
Current and Other Assets	\$56,061,709	\$58,856,588
Capital Assets, Net	27,072,871	21,153,296
<i>Total Assets</i>	83,134,580	80,009,884
Liabilities		
Current Liabilities	22,465,918	20,159,683
Long-term Liabilities		
Due within One Year	2,153,771	2,029,788
Due Within More Than One Year	21,058,860	22,374,902
<i>Total Liabilities</i>	45,678,549	44,564,373
Net Assets		
Invested in Capital Assets, Net of Related Debt	19,206,827	13,903,618
Restricted For:		
Capital Projects	13,194,937	16,529,272
Debt Service	443,622	242,025
Other Purposes	1,484,970	868,700
Unrestricted	3,125,675	3,901,896
<i>Total Net Assets</i>	\$37,456,031	\$35,445,511

Total assets increased \$3,124,696. The majority of this increase can be attributed directly to the resources and construction in progress associated with the Ohio School Facilities construction project for the new middle school.

Total liabilities increased by \$1,114,176. The most notable area that increased was long-term liabilities due to the School District incurring long-term debt for the Ohio School Facilities construction project for the new middle school.

The vast majority of revenues supporting governmental activities are the general revenues. General revenue totaled \$35,347,594 which is approximately 79.46 percent of total revenue. The most significant portions of the general revenue are the intergovernmental section which is approximately 41.01 percent of total revenue. The intergovernmental revenues consist of State foundation, Ohio School Facilities Commission grant, homestead and rollback, and personal property tax exemption. Property taxes account for 37.22 percent of total revenues, interest income accounts for 0.59 percent of total revenue, and miscellaneous revenue accounts for 0.58 percent of total revenues. The remaining amount of revenue received was in the form of program revenues, which equaled \$9,136,596 or 20.54 percent of total revenue.

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 2
 Change in Net Assets
 Governmental Activities

	2004	2003
Revenues		
<i>Program Revenues</i>		
Charges for Services	\$1,947,192	\$1,677,248
Operating Grants and Contributions	7,109,387	5,745,536
Capital Grants and Contributions	80,017	12,995
<i>Total Program Revenues</i>	<u>9,136,596</u>	<u>7,435,779</u>
<i>General Revenues</i>		
Property Taxes	16,557,916	15,497,281
Income Tax	26,162	0
Intergovernmental	18,244,555	36,134,186
Investment Earnings	262,812	425,138
Miscellaneous	256,149	182,046
<i>Total General Revenues</i>	<u>35,347,594</u>	<u>52,238,651</u>
Total Revenues	<u>44,484,190</u>	<u>59,674,430</u>
<i>Program Expenses</i>		
Instruction:		
Regular	15,663,562	15,972,207
Special	4,822,451	4,041,931
Vocational	2,004,632	2,205,180
Adult/Continuing	34,565	40,697
Support Services:		
Pupil	2,474,416	2,098,833
Instructional Staff	2,138,897	1,563,067
Board of Education	232,670	115,148
Administration	3,546,902	3,208,220
Fiscal	1,087,491	1,137,249
Business	359,994	406,254
Operation and Maintenance of Plant	4,001,157	6,313,433
Pupil Transportation	1,387,962	1,202,543
Central	317,746	525,373
Operation of Food Services	1,324,615	1,323,876
Operation of Non-Instructional Services	391,464	457,499
Extracurricular Activities	1,531,282	1,589,707
Interest and Fiscal Charges	1,153,864	1,146,784
<i>Total Program Expenses</i>	<u>42,473,670</u>	<u>43,348,001</u>
Change in Net Assets	2,010,520	16,326,429
Net Assets Beginning of Year	35,445,511	19,119,082
Net Assets End of Year	<u>\$37,456,031</u>	<u>\$35,445,511</u>

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. The School District's revenue growth is mostly dependent upon property tax increases and new construction. Property taxes made up 37.22 percent of revenues for governmental activities for Massillon City School District in fiscal year 2004. Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating cost.

Instruction comprises 53.03 percent of governmental program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 36.61 percent. The remaining 10.36 percent of program expenses is used for other obligations of the School District such as non-instructional services, extracurricular activities and interest and fiscal charges.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons of 2004 to 2003 have been made in Table 3.

Table 3
 Total and Net Cost of Program Services
 Governmental Activities

	Total Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2004	Net Cost of Services 2003
Program Expenses				
Instruction:				
Regular	\$15,663,562	\$15,972,207	(\$13,376,453)	(\$14,190,677)
Special	4,822,451	4,041,931	(3,396,059)	(2,661,785)
Vocational	2,004,632	2,205,180	(1,724,608)	(1,983,206)
Adult/Continuing	34,565	40,697	(2,290)	(6,452)
Support Services:				
Pupil	2,474,416	2,098,833	(1,610,775)	(1,593,655)
Instructional Staff	2,138,897	1,563,067	(1,051,255)	(938,264)
Board of Education	232,670	115,148	(223,153)	(113,310)
Administration	3,546,902	3,208,220	(3,104,289)	(2,875,786)
Fiscal	1,087,491	1,137,249	(1,018,416)	(1,102,997)
Business	359,994	406,254	(345,241)	(399,758)
Operation and Maintenance of Plant	4,001,157	6,313,433	(3,743,348)	(6,171,392)
Pupil Transportation	1,387,962	1,202,543	(1,270,214)	(1,166,987)
Central	317,746	525,373	(306,140)	(512,475)
Operation of Food Services	1,324,615	1,323,876	11,871	(48,221)
Other Non-Instructional Services	391,464	457,499	(13,111)	(95,001)
Extracurricular Activities	1,531,282	1,589,707	(1,009,729)	(905,472)
Interest and Fiscal Charges	1,153,864	1,146,784	(1,153,864)	(702,192)
Total	<u>\$42,473,670</u>	<u>\$43,348,001</u>	<u>(\$33,337,074)</u>	<u>(\$35,467,630)</u>

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The dependence upon tax revenues for governmental activities is apparent. 38.98 percent of expenses are directly supported by local property taxes. Program revenues only account for 21.51 percent of all governmental expenses. Program revenues include charges for services, grants and contributions that are program specific. Surrounding schools with resident students attending Massillon City School District pay the School District \$5,058 per pupil under Ohio's open enrollment plan. The community is the second largest area of support for the Massillon City School District students.

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$52,044,049 and expenditures of \$49,163,041. The net change in fund balance for the year was most significant in the classroom facilities capital project fund totaling \$2,129,432.

General Fund Budgeting Highlights

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

During the course of fiscal year 2004, the School District amended its general fund budget several times. The most significant amendments occurred due to changes in the expenditure priorities in the buildings. For the general fund, the final budget basis revenue was \$33,400,972 representing a \$4,288,472 increase from the original budget estimate of \$29,112,500. Most of this difference is due to an underestimation of property tax and intergovernmental revenues. The original budget estimate was amended with the June 2004 amended certificate of resources. The School District's general fund unencumbered cash balance at the end of the fiscal year was \$7,799,457.

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the School District had \$27,072,871 invested in land, construction in progress, land improvements, buildings and improvements, furniture and fixtures, and vehicles. Table 4 shows fiscal 2004 values compared to 2003. More detailed information is presented in Note 7 of the notes to the basic financial statements.

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 4
 Capital Assets at June 30
 Governmental Activities

	2004	2003
Land	\$2,335,360	\$2,335,360
Construction In Progress	6,432,707	0
Land Improvements	3,756,308	4,042,267
Buildings and Improvements	12,146,472	12,746,342
Furniture and Fixtures	1,967,963	1,555,188
Vehicles	434,061	474,139
Total Capital Assets	\$27,072,871	\$21,153,296

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

For fiscal year 2004, Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional materials and supplies. For fiscal year 2004, this amounted to \$644,367 for each purpose. The School District had qualifying disbursements exceeding both the capital and maintenance requirement and the textbook and instructional materials and supplies requirement. More detailed information is presented in Note 19 of the notes to the basic financial statements.

Debt

At June 30, 2004, the School District had \$20,380,455 outstanding in general obligation bonds and \$637,499 outstanding in a State vocational school loan. Table 5 shows fiscal year 2004 values compared to 2003.

Table 5
 Outstanding Debt at June 30
 Governmental Activities

	2004	2003
2003 Middle School G.O. Bonds:		
Serial Bonds	\$3,440,000	\$3,565,000
Term Bonds	8,235,000	8,235,000
1994 High School G.O. Bonds:		
Serial Bonds	4,850,000	6,330,000
Capital Appreciation Bonds	919,678	919,678
Accretion on Capital Appreciation Bonds	2,935,777	2,422,980
1991 State Vocational School Loan	637,499	892,498
Totals	\$21,017,954	\$22,365,156

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

At June 30, 2004, the School District's overall legal debt margin was \$20,706,090 with an unvoted debt margin of \$434,455. The School District maintains an Aaa bond rating. A more detailed presentation is included in Note 15 of the notes to the basic financial statements.

School District Outlook

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

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

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

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

The concern is that, to meet the requirements of the court, the State may require the redistribution of commercial and industrial property taxes. With 41.63 percent of the taxes for the School District coming from local businesses and industry, one can see the significant impact this change would have on the School District and ultimately, the residential taxpayers. This percentage was taken from the SF-3 report of the Ohio Department of Education, Division of School Finance, Final SF3 fiscal year 2004.

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

Contacting the School District's Financial Management

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

This page intentionally left blank.

Massillon City School District

Statement of Net Assets

June 30, 2004

	Primary Government	Component Unit
	Governmental Activities	Massillon Digital Academy
Assets		
Equity in Pooled Cash and Cash Equivalents	\$27,214,248	\$0
Cash and Cash Equivalents with Fiscal Agents	0	85,415
Accounts Receivable	43,053	0
Intergovernmental Receivable	9,205,979	0
Prepaid Items	45,506	0
Property Taxes Receivable	19,277,082	0
Inventory Held for Resale	16,730	0
Materials and Supplies Inventory	52,222	0
Deferred Charges	206,889	0
Nondepreciable Capital Assets	8,768,067	0
Depreciable Capital Assets, Net	18,304,804	11,382
<i>Total Assets</i>	83,134,580	96,797
Liabilities		
Accounts Payable	237,102	15,112
Accrued Wages and Benefits	2,511,203	0
Contracts Payable	1,032,866	0
Intergovernmental Payable	1,567,375	68,338
Accrued Interest Payable	41,006	0
Matured Compensated Absences Payable	54,944	0
Deferred Revenue	17,021,422	0
Long-Term Liabilities:		
Due Within One Year	2,153,771	0
Due In More Than One Year	21,058,860	0
<i>Total Liabilities</i>	45,678,549	83,450
Net Assets		
Invested in Capital Assets, Net of Related Debt	19,206,827	11,382
Restricted for:		
Capital Projects	13,194,937	0
Debt Service	443,622	0
Food Service Operations	274,102	0
Uniform School Supplies	61,123	0
Public School Support	78,915	0
Other Local Grants	89,585	0
Classroom Facilities Maintenance	304,326	0
Athletics and Music	229,469	0
Ohio Reads	77,443	0
Title I	83,284	0
Miscellaneous Federal Grants	202,725	2,536
Other Purposes	83,998	0
Unrestricted (Deficit)	3,125,675	(571)
<i>Total Net Assets</i>	\$37,456,031	\$13,347

See accompanying notes to the basic financial statements

Massillon City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Primary Governmental Activities	Component Units Massillon Digital Academy
Governmental Activities						
Instruction:						
Regular	\$15,663,562	\$369,860	\$1,837,232	\$80,017	(\$13,376,453)	\$0
Special	4,822,451	91,610	1,334,782	0	(3,396,059)	0
Vocational	2,004,632	68,245	211,779	0	(1,724,608)	0
Adult/Continuing	34,565	0	32,275	0	(2,290)	0
Support Services:						
Pupil	2,474,416	44,417	819,224	0	(1,610,775)	0
Instructional Staff	2,138,897	25,604	1,062,038	0	(1,051,255)	0
Board of Education	232,670	5,836	3,681	0	(223,153)	0
Administration	3,546,902	80,543	362,070	0	(3,104,289)	0
Fiscal	1,087,491	25,789	43,286	0	(1,018,416)	0
Business	359,994	9,047	5,706	0	(345,241)	0
Operation and Maintenance of Plant	4,001,157	115,168	142,641	0	(3,743,348)	0
Pupil Transportation	1,387,962	32,346	85,402	0	(1,270,214)	0
Central	317,746	7,117	4,489	0	(306,140)	0
Operation of Non-Instructional Services:						
Operation of Food Services	1,324,615	560,722	775,764	0	11,871	0
Other Non-Instructional Services	391,464	0	378,353	0	(13,111)	0
Extracurricular Activities	1,531,282	510,888	10,665	0	(1,009,729)	0
Interest and Fiscal Charges	1,153,864	0	0	0	(1,153,864)	0
<i>Total - Primary Government</i>	<u>\$42,473,670</u>	<u>\$1,947,192</u>	<u>\$7,109,387</u>	<u>\$80,017</u>	<u>(33,337,074)</u>	<u>0</u>
Component Unit						
Massillon Digital Academy	<u>\$176,810</u>	<u>\$0</u>	<u>\$107,563</u>	<u>\$0</u>	<u>0</u>	<u>(69,247)</u>
General Revenues						
Property Taxes Levied for:						
General Purposes					13,949,440	0
Debt Service					2,408,686	0
Capital Outlay					199,790	0
Income Taxes Levied for General Purposes					26,162	0
Grants and Entitlements not Restricted to Specific Programs					18,244,555	65,162
Investment Earnings					262,812	71
Miscellaneous					256,149	0
<i>Total General Revenues</i>					<u>35,347,594</u>	<u>65,233</u>
Change in Net Assets					2,010,520	(4,014)
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>					<u>35,445,511</u>	<u>17,361</u>
<i>Net Assets End of Year</i>					<u>\$37,456,031</u>	<u>\$13,347</u>

See accompanying notes to the basic financial statements

Massillon City School District*Balance Sheet**Governmental Funds**June 30, 2004*

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$9,232,306	\$1,289,981	\$14,980,301	\$1,711,660	\$27,214,248
Property Taxes Receivable	16,239,093	3,010,589	0	27,400	19,277,082
Accounts Receivable	42,811	0	0	242	43,053
Intergovernmental Receivable	82,978	0	8,590,015	532,986	9,205,979
Interfund Receivable	1,182,009	0	0	0	1,182,009
Prepaid Items	45,506	0	0	0	45,506
Inventory Held for Resale	0	0	0	16,730	16,730
Materials and Supplies Inventory	19,025	0	0	33,197	52,222
<i>Total Assets</i>	<u>\$26,843,728</u>	<u>\$4,300,570</u>	<u>\$23,570,316</u>	<u>\$2,322,215</u>	<u>\$57,036,829</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$70,848	\$0	\$65,430	\$100,824	\$237,102
Contracts Payable	0	0	1,032,866	0	1,032,866
Accrued Wages and Benefits	2,240,685	0	0	270,518	2,511,203
Interfund Payable	0	1,168,733	0	13,276	1,182,009
Intergovernmental Payable	736,897	0	0	96,047	832,944
Matured Compensated Absences Payable	54,944	0	0	0	54,944
Deferred Revenue	15,192,663	2,807,019	8,590,015	194,113	26,783,810
State Vocational Loan Payable	637,499	0	0	0	637,499
<i>Total Liabilities</i>	<u>18,933,536</u>	<u>3,975,752</u>	<u>9,688,311</u>	<u>674,778</u>	<u>33,272,377</u>
Fund Balances					
Reserved for Encumbrances	1,275,169	0	0	74,509	1,349,678
Reserved for Property Taxes	1,046,430	203,570	0	13,640	1,263,640
Unreserved:					
Undesignated, Reported in:					
General Fund	5,588,593	0	0	0	5,588,593
Special Revenue Funds	0	0	0	1,464,626	1,464,626
Debt Service Fund	0	121,248	0	0	121,248
Capital Projects Funds	0	0	13,882,005	94,662	13,976,667
<i>Total Fund Balances</i>	<u>7,910,192</u>	<u>324,818</u>	<u>13,882,005</u>	<u>1,647,437</u>	<u>23,764,452</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$26,843,728</u>	<u>\$4,300,570</u>	<u>\$23,570,316</u>	<u>\$2,322,215</u>	<u>\$57,036,829</u>

See accompanying notes to the basic financial statements

Massillon City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004*

Total Governmental Fund Balances	\$23,764,452
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	27,072,871
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	
Property Taxes	992,020
Intergovernmental	<u>8,770,368</u>
Total	9,762,388
Bond issuance costs reported as an expenditure in the funds are allocated as an expense over the life of the bonds on a full accrual basis.	
Issuance Cost	226,593
Current Year Expense	<u>(19,704)</u>
Total	206,889
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(41,006)
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(734,431)
Long-term liabilities, including bonds and compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.	
Compensated Absences	(2,194,677)
General Obligation Bonds	(16,525,000)
Capital Appreciation Bond	<u>(3,855,455)</u>
Total	<u>(22,575,132)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$37,456,031</u></u>

See accompanying notes to the basic financial statements

Massillon City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

	General	Bond Retirement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$13,912,366	\$2,396,937	\$0	\$189,090	\$16,498,393
Income Taxes	26,162	0	0	0	26,162
Intergovernmental	18,727,134	7,746	7,702,411	6,427,731	32,865,022
Interest	35,094	0	223,147	4,571	262,812
Tuition and Fees	739,502	0	0	44,736	784,238
Extracurricular Activities	0	0	0	471,641	471,641
Contributions and Donations	23,256	0	0	165,063	188,319
Charges for Services	87,558	0	0	564,037	651,595
Rentals	17,380	0	0	22,338	39,718
Miscellaneous	187,276	0	0	68,873	256,149
<i>Total Revenues</i>	<u>33,755,728</u>	<u>2,404,683</u>	<u>7,925,558</u>	<u>7,958,080</u>	<u>52,044,049</u>
Expenditures					
Current:					
Instruction:					
Regular	13,294,084	0	0	1,679,976	14,974,060
Special	3,627,234	0	0	1,190,562	4,817,796
Vocational	2,123,909	0	0	59,342	2,183,251
Adult/Continuing	53	0	0	34,726	34,779
Support Services:					
Pupil	1,669,225	0	0	727,896	2,397,121
Instructional Staff	975,586	0	0	1,050,972	2,026,558
Board of Education	229,703	0	1,030	0	230,733
Administration	3,193,783	0	452	327,489	3,521,724
Fiscal	1,037,536	26,641	0	31,516	1,095,693
Business	389,735	0	0	0	389,735
Operation and Maintenance of Plant	4,591,282	0	0	126,743	4,718,025
Pupil Transportation	1,264,819	0	0	61,983	1,326,802
Central	285,244	0	748,725	7,274	1,041,243
Operation of Non-Instructional Services:					
Operation of Food Services	0	0	0	1,283,807	1,283,807
Other Non-Instructional Services	98	0	0	432,882	432,980
Extracurricular Activities	665,568	0	0	645,034	1,310,602
Capital Outlay	0	0	5,045,919	0	5,045,919
Debt Service:					
Principal Retirement	0	1,605,000	0	0	1,605,000
Interest and Fiscal Charges	0	727,213	0	0	727,213
<i>Total Expenditures</i>	<u>33,347,859</u>	<u>2,358,854</u>	<u>5,796,126</u>	<u>7,660,202</u>	<u>49,163,041</u>
<i>Excess of Revenues Over Expenditures</i>	<u>407,869</u>	<u>45,829</u>	<u>2,129,432</u>	<u>297,878</u>	<u>2,881,008</u>
Other Financing Sources (Uses)					
Sale of Capital Assets	15,085	0	0	270	15,355
Transfers In	0	48,021	0	0	48,021
Transfers Out	0	0	0	(48,021)	(48,021)
<i>Total Other Financing Sources (Uses)</i>	<u>15,085</u>	<u>48,021</u>	<u>0</u>	<u>(47,751)</u>	<u>15,355</u>
<i>Net Change in Fund Balances</i>	422,954	93,850	2,129,432	250,127	2,896,363
<i>Fund Balances Beginning of Year</i>	<u>7,487,238</u>	<u>230,968</u>	<u>11,752,573</u>	<u>1,397,310</u>	<u>20,868,089</u>
<i>Fund Balances End of Year</i>	<u>\$7,910,192</u>	<u>\$324,818</u>	<u>\$13,882,005</u>	<u>\$1,647,437</u>	<u>\$23,764,452</u>

See accompanying notes to the basic financial statements

Massillon City School District

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2004*

Net Change in Fund Balances - Total Governmental Funds \$2,896,363

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

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

Capital Asset Additions	7,408,023	
Current Year Depreciation	<u>(1,459,050)</u>	
Total		5,948,973

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (29,398)

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

Delinquent Property Taxes	59,523	
Intergovernmental	<u>(7,646,110)</u>	
Total		(7,586,587)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,605,000

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

Bond Issuance Cost	(9,852)	
Accrued Interest	95,998	
Bond Accretion	<u>(512,797)</u>	
Total		(426,651)

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

Compensated Absences	(155,143)	
Pension Obligation	<u>(242,037)</u>	
Total		<u>(397,180)</u>

Change in Net Assets of Governmental Activities \$2,010,520

See accompanying notes to the basic financial statements

Massillon City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$12,700,000	\$13,888,806	\$13,888,806	\$0
Income Taxes	0	26,162	26,162	0
Intergovernmental	15,642,500	18,441,627	18,441,627	0
Interest	250,000	75,942	75,942	0
Tuition and Fees	475,000	735,461	735,461	0
Contributions and Donations	0	23,256	23,256	0
Charges for Services	10,000	87,558	87,558	0
Rentals	20,000	13,645	13,645	0
Miscellaneous	15,000	108,515	108,515	0
<i>Total Revenues</i>	<u>29,112,500</u>	<u>33,400,972</u>	<u>33,400,972</u>	<u>0</u>
Expenditures				
Current:				
Instruction:				
Regular	35,255,795	13,583,005	13,583,005	0
Special	940,089	4,160,120	4,160,120	0
Vocational	39,889	2,163,832	2,163,832	0
Adult/Continuing	1,470	53	53	0
Support Services:				
Pupil	215,026	1,646,055	1,646,055	0
Instructional Staff	11,358	974,796	974,796	0
Board of Education	18,989	293,111	293,111	0
Administration	34,818	3,224,101	3,224,101	0
Fiscal	341,538	1,076,629	1,076,629	0
Business	93,066	402,173	402,173	0
Operation and Maintenance of Plant	423,529	4,803,222	4,803,222	0
Pupil Transportation	140,208	1,275,503	1,275,501	2
Central	0	284,643	284,643	0
Operation of Non-Instructional Services	0	98	98	0
Extracurricular Activities	657	662,473	662,473	0
Capital Outlay	20,169	2,300	2,300	0
<i>Total Expenditures</i>	<u>37,536,601</u>	<u>34,552,114</u>	<u>34,552,112</u>	<u>2</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(8,424,101)</u>	<u>(1,151,142)</u>	<u>(1,151,140)</u>	<u>2</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	10,000	15,085	15,085	0
Advances In	81,000	80,716	80,716	0
Advances Out	0	(268,275)	(268,275)	0
<i>Total Other Financing Sources (Uses)</i>	<u>91,000</u>	<u>(172,474)</u>	<u>(172,474)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(8,333,101)</u>	<u>(1,323,616)</u>	<u>(1,323,614)</u>	<u>2</u>
<i>Fund Balance Beginning of Year</i>	6,574,234	6,574,234	6,574,234	0
Prior Year Encumbrances Appropriated	<u>2,548,837</u>	<u>2,548,837</u>	<u>2,548,837</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$789,970</u>	<u>\$7,799,455</u>	<u>\$7,799,457</u>	<u>\$2</u>

See accompanying notes to the basic financial statements

Massillon City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$25,337	\$100,442
Liabilities		
Due to Students	0	\$100,442
Net Assets		
Held in Trust for Scholarships	\$25,337	

See accompanying notes to the basic financial statements

Massillon City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2004

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

See accompanying notes to the basic financial statements

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1 - Description of the School District and Reporting Entity

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

The School District is located in Stark County and encompasses the entire City of Massillon. It controls the School District's 10 instructional/support facilities staffed by 271 classified employees, 359 certificated full-time teaching personnel, and 29 administrators who provide services to 4,487 students and other community members.

Reporting Entity

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

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

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

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

Massillon Digital Academy The Massillon Digital Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3313 and 3314 which is operated under the direction of a six-member Board of Directors. The Academy, under contractual agreement with the School District, is to deliver a comprehensive educational program of high quality, tied to State and National standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is to be operated in cooperation with public schools to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others including home-schooled students who are not currently enrolled in any public school

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

and who are not receiving a meaningful, comprehensive, and standards-based educational program. The Academy, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school. The Academy is fiscally dependent on the School District for all accounting and fiscal purposes and is therefore presented as a component unit of the School District. Financial statements can be obtained from the Massillon Digital Academy, 207 Oak Street Southeast, Massillon, Ohio 44646.

The School District participates in one jointly governed organization and two public entity risk pools. These organizations are the Stark/Portage Area Computer Consortium (SPARCC), the Stark County Schools Council of Governments Health Benefit Plan and the Stark County Schools Council of Governments Workers' Compensation Group Rating Plan. They are presented in Notes 16 and 17.

Note 2 - Summary of Significant Accounting Policies

The financial statements of Massillon City School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict with or contradict GASB pronouncements. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

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

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

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

B. Fund Accounting

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

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

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

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

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

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

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

C. Measurement Focus

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

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

D. Basis of Accounting

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

E. Budgetary Process

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

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

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

F. Cash and Investments

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

During fiscal year 2004, investments were limited to Federal National Mortgage Association Notes, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes, Federal Farm Credit Bank Notes, repurchase agreements, certificates of deposit and STAROhio.

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

STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2004.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the classroom facilities fund during fiscal year 2004 amounted to \$223,147, which includes \$78,480 assigned from other School District funds.

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

H. Inventory

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

I. Capital Assets

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

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

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

Description	Estimated Lives
Land Improvements	20 years
Buildings and Improvements	20 - 50 years
Furniture and Fixtures	8 - 20 years
Vehicles	10 -15 years

J. Interfund Balances

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

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

K. Compensated Absences

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

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Assets

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

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

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

N. Fund Balance Reserves

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

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

O. Interfund Activity

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

P. Extraordinary and Special Items

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

Q. Estimates

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

Note 3 - Change in Accounting Principle and Restatement of Net Assets

A. Changes in Accounting Principles

For fiscal year 2004, the School District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government. The School District is now required to report the Massillon Digital Academy as a component unit.

B. Restatement of Net Assets

In the prior fiscal year, the capital appreciation bond portion of the 1994 High School bond was reported incorrectly as a serial bond. Therefore, no liability for the accretion on the bond was booked. The implementation of this change decreased net assets at June 30, 2003 by \$2,422,980 from \$37,868,491 to \$35,445,511.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 4 – Accountability

Fund balances at June 30, 2004, included the following individual fund deficits:

<i>Special Revenue Funds:</i>	
Career Development	\$39
Public Preschool	334
Disadvantaged Pupil Impact Aid	2,054
Carl Perkins Grant	4,447
Drug Free Schools Grant	7,276
Preschool Grants Handicap	40
Title VI-R	38,508

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

Note 5 - Budgetary Basis of Accounting

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

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

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

Net Change in Fund Balance	
GAAP Basis	\$422,954
Net Adjustment for Revenue Accruals	(169,615)
Reallocation of Revenue to Debt Service Fund for Loan Payment	(254,999)
Advances In	80,716
Beginning Fair Value Adjustment for Investments	62,206
Ending Fair Value Adjustment for Investments	7,652
Net Adjustment for Expenditure Accruals	220,301
Advances Out	(268,275)
Encumbrances	<u>(1,424,554)</u>
Budget Basis	<u><u>(\$1,323,614)</u></u>

Note 6 - Deposits and Investments

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

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

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

Interim deposits are deposits of interim moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposits maturing not more than one year from the date of deposit or by savings accounts including passbook accounts.

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

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

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

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

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

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

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

Deposits At year-end, the carrying amount of the School District's deposits was \$11,408,990 and the bank balance was \$11,628,481. Of the bank balance

1. \$200,000 was covered by federal depository insurance and,

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

2. \$11,428,481 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institutions trust department or agent in the School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. Investments at June 30, 2004 consist of the following:

	Category 3	Carrying Value	Fair Value
Federal National Mortgage Association Notes	\$991,989	\$991,989	\$991,989
Federal Home Loan Bank Notes	2,002,120	2,002,120	2,002,120
Federal Home Loan Mortgage Corporation Notes	1,991,507	1,991,507	1,991,507
Federal Farm Credit Bank Notes	1,001,996	1,001,996	1,001,996
Repurchase Agreement	2,310,000	2,310,000	2,310,000
STAROhio		7,633,275	7,633,275
Total Investments	<u>\$8,297,612</u>	<u>\$15,930,887</u>	<u>\$15,930,887</u>

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

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$27,340,027	\$0
Cash on Hand	(150)	0
Investments which are part of the cash management pool:		
Federal National Mortgage Association Notes	(991,989)	991,989
Federal Home Loan Bank Notes	(2,002,120)	2,002,120
Federal Home Loan Mortgage Corporation Notes	(1,991,507)	1,991,507
Federal Farm Credit Bank Notes	(1,001,996)	1,001,996
Repurchase Agreement	(2,310,000)	2,310,000
STAROhio	(7,633,275)	7,633,275
GASB Statement No. 3	<u>\$11,408,990</u>	<u>\$15,930,887</u>

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 7 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance 6/30/2003	Additions	Deletions	Balance 6/30/2004
Governmental Activities				
<i>Capital Assets not being depreciated</i>				
Land	\$2,335,360	\$0	\$0	\$2,335,360
Construction in Progress	0	6,432,707	0	6,432,707
<i>Total Capital Assets not being depreciated</i>	<u>2,335,360</u>	<u>6,432,707</u>	<u>0</u>	<u>8,768,067</u>
<i>Capital Assets being depreciated</i>				
Land Improvements	6,012,468	0	0	6,012,468
Buildings and Improvements	25,555,953	77,168	(13,940)	25,619,181
Furniture and Fixtures	8,108,828	841,699	(640,018)	8,310,509
Vehicles	1,979,385	56,449	(150,126)	1,885,708
<i>Total Capital Assets being Depreciated</i>	<u>41,656,634</u>	<u>975,316</u>	<u>(804,084)</u>	<u>41,827,866</u>
Less: Accumulated Depreciation				
Land Improvements	(1,970,201)	(285,959)	0	(2,256,160)
Buildings and Improvements	(12,809,611)	(668,000)	4,902	(13,472,709)
Furniture and Fixtures	(6,553,640)	(408,564)	619,658	(6,342,546)
Vehicles	(1,505,246)	(96,527)	150,126	(1,451,647)
<i>Total Accumulated Depreciation</i>	<u>(22,838,698)</u>	<u>(1,459,050) *</u>	<u>774,686</u>	<u>(23,523,062)</u>
<i>Total Assets being Depreciated, Net</i>	<u>18,817,936</u>	<u>(483,734)</u>	<u>(29,398)</u>	<u>18,304,804</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$21,153,296</u>	<u>\$5,948,973</u>	<u>(\$29,398)</u>	<u>\$27,072,871</u>

* Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$850,838
Special	3,506
Vocational	80,078
Adult/Continuing	50
Support Services:	
Pupil	4,806
Instructional Staff	40,379
Administration	50,758
Fiscal	5,268
Business	51
Operation and Maintenance of Plant	45,983
Pupil Transportation	83,302
Operation of Non-Instructional Services:	
Operation of Food Services	28,101
Other Non-Instructional Services	1,817
Extracurricular Activities	264,113
Total Depreciation Expense	<u>\$1,459,050</u>

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 8 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Stark County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$1,046,430 in the general fund, \$203,570 in the bond retirement debt service fund, and \$13,640 in the classroom facilities maintenance special revenue fund. The amount available as an advance at June 30, 2003, was \$1,022,870 in the general fund in \$195,400 in the bond retirement debt service fund, and \$15,230 in the classroom facilities maintenance special revenue fund.

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

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$306,007,430	76.57 %	\$344,469,550	79.29 %
Public Utility Personal	23,235,310	5.82	23,229,120	5.35
Tangible Personal Property	70,379,470	17.61	66,756,309	15.36
Total	\$399,622,210	100.00 %	\$434,454,979	100.00 %
 Tax rate per \$1,000 of assessed valuation	 \$52.30		 \$51.70	

Note 9 - Receivables

A. Intergovernmental Receivables

Receivables at June 30, 2004, consisted of taxes, accounts (rent, student fees and tuition), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables are expected to be collected within one year except for the Ohio School Facilities Commission Grant.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	Amounts
Ohio School Facilities Commission Grant	\$8,590,015
Title I Grant	184,118
Food Service	92,796
Ohio Reads	63,000
Title VI - B Grant	14,484
Title V Grant	7,914
Title VI - R Grant	6,038
Miscellaneous State Grants	14,350
Miscellaneous Federal Grants	139,230
Drug Free Schools Grant	8,056
Other Grants	3,000
Other General	52,470
E - Rate Reimbursement	30,508
Total Intergovernmental Receivables	\$9,205,979

The Ohio School Facilities Commission grant is to provide assistance for funding a new middle school building.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Indiana Insurance Company for various types of insurance as follows:

<u>Coverage</u>	<u>Amount</u>
General Liability:	
Occurrence	\$1,000,000
Aggregate	2,000,000
Umbrella	1,000,000
Buildings and Contents	75,606,566
Automobile Liability	2,000,000

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

B. Employee Health Benefits

The School District participates in the Stark County Schools Council of Governments Health Benefit Plan, a shared risk pool (Note 17) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The School District's Board of Education pays the entire cost of a monthly premium

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

C. Workers' Compensation

The School District participates in the Stark County Schools Council of Governments Workers' Compensation Group Rating Plan, an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

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

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 11 - Pension Plans

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$509,062, \$441,975, and \$255,969 respectively; 40.62 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$2,414,937, \$2,256,536, and \$1,531,535 respectively; 83.18 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$7,781 made by the School District and \$23,653 made by the plan members.

Note 12 - Postemployment Benefits

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

All retirees of the DC and Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$185,764 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.10 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. In

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$713,169.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Note 13 - Other Employee Benefits

A. Compensated Absences

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

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

B. Life Insurance

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

Note 14 – Interfund Transactions

A. Interfund Transfers

During the fiscal year, the site acquisition fund transferred \$48,021 to the bond retirement fund. The reason for the transfer was to help pay the debt for the new middle school debt. The purchase of the new middle school was completed, so the balance in the site acquisition fund was transferred to help pay the debt out of the bond retirement fund.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

B. Interfund Balances

Interfund Payable	Interfund Receivable
	General
<i>Major Fund:</i>	
Bond Retirement	\$1,168,733
<i>Nonmajor Funds:</i>	
Miscellaneous State Grants	13,276
Total	\$1,182,009

The loan made to the Bond Retirement fund was to make a payment on a loan. The interfund payable in the Miscellaneous State Grants fund was due to the timing of the receipt of grant monies received by the funds.

Note 15 - Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2004 were as follows:

	Principal Outstanding 6/30/03	Additions	Deductions	Principal Outstanding 6/30/04	Amounts Due in One Year
<i>Governmental Activities:</i>					
2003 Middle School Bonds:					
\$3,565,000 2.00-4.00% Serial Bonds	\$3,565,000	\$0	\$125,000	\$3,440,000	\$210,000
\$8,235,000 4.75-5.25% Term Bonds	8,235,000	0	0	8,235,000	0
1994 High School Bonds:					
\$17,520,000 2.50-4.80% Serial Bonds	6,330,000	0	1,480,000	4,850,000	1,545,000
\$919,678 5.10-5.30% Capital Appreciation Bonds	919,678	0	0	919,678	0
Accretion on Capital Appreciation Bonds	2,422,980	512,797	0	2,935,777	0
Total General Obligation Bonds	21,472,658	512,797	1,605,000	20,380,455	1,755,000
<i>Other Long-Term Obligations:</i>					
1991 State Vocational School Loan - 0.0%	892,498	0	254,999	637,499	254,999
Compensated Absences	2,039,534	206,374	51,231	2,194,677	143,772
<i>Total General Long-Term Obligations</i>	\$24,404,690	\$719,171	\$1,911,230	\$23,212,631	\$2,153,771

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

The general obligation bonds will be paid from the Bond Retirement debt service fund. The State Vocational School loan will be paid from foundation revenue in the general fund. The 1994 high school general obligation bonds will mature on December 1st, 2011 and the 2003 middle school general obligation bonds

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

will mature on December 1st, 2025. Compensated absences will be paid from the general fund, the Food Service, Athletics, Auxiliary Services, Public Pre-school, Disadvantaged Pupil Impact Aid, Ohio Reads, Title VI-B, Carl Perkins Grant, Title I, Drug Free Schools Grant, Title VI-R and Miscellaneous Federal Grants special revenue funds.

The 2003 Middle School bonds include serial bonds and term bonds. The 1994 High School bonds include serial bonds and capital appreciation bonds. The additions were \$512,797 which represents the annual accretion of discounted interest. The final amount of the capital appreciation bonds will be \$8,785,000.

The School District's overall debt margin was \$20,706,090 with an unvoted debt margin of \$434,455 at June 30, 2004. Principal and interest requirements to retire the general obligation bonds follow:

Fiscal Year Ending June 30,	1994 High School Bonds			
	Serial Bonds		Capital Appreciation Bonds	
	Principal	Interest	Principal	Interest
2005	\$1,545,000	\$192,560	\$0	\$0
2006	1,615,000	119,073	0	0
2007	1,690,000	40,560	0	0
2008	0	0	238,639	1,521,362
2009	0	0	207,926	1,552,074
2010 - 2014	0	0	473,113	4,791,886
2015 - 2019	0	0	0	0
2020 - 2024	0	0	0	0
2025 - 2026	0	0	0	0
Total	\$4,850,000	\$352,193	\$919,678	\$7,865,322

Fiscal Year Ending June 30,	2003 Middle School Bonds				State Vocational
	Serial Bonds		Term Bonds		School Loan
	Principal	Interest	Principal	Interest	Principal
2005	\$210,000	\$529,740	\$0	\$0	\$254,999
2006	220,000	525,540	0	0	254,999
2007	230,000	521,140	0	0	127,501
2008	265,000	515,965	0	0	0
2009	280,000	509,340	0	0	0
2010 - 2014	1,785,000	2,393,060	0	0	0
2015 - 2019	450,000	436,288	2,200,000	1,511,450	0
2020 - 2024	0	0	3,995,000	1,130,050	0
2025 - 2026	0	0	2,040,000	155,500	0
Total	\$3,440,000	\$5,431,073	\$8,235,000	\$2,797,000	\$637,499

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 16 - Jointly Governed Organization

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

SPARCC is governed by a board of directors comprised of each Superintendent within the Consortium. The Stark County Educational Service Center serves as the fiscal agent of the Consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and financing of SPARCC is limited to its voting authority and any representation it may have on the board of directors. The continued existence of SPARCC is not dependent on the District's continued participation and no equity interest exists. Massillon City School District paid \$85,411 to SPARCC during fiscal year 2004 for services. Financial information can be obtained by writing the Stark/Portage Area Computer Consortium, 2100 38th Street NW, Canton, Ohio 44709.

Note 17 – Public Entity Risk Pools

A. Risk Sharing Pool

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

B. Insurance Purchasing Pool

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

Note 18 - Contingencies

A. Grants

The School District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

B. Litigation

As of June 30, 2004, the School District was a party to various legal proceedings. The amount of the liability, if any, cannot be reasonably estimated at this time.

Note 19 - Set-Aside Calculations

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

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

	Textbooks	Capital Improvements
Set-aside Reserve Balance as of June 30, 2003	(\$160,150)	\$0
Current Year Set-aside Requirement	644,367	644,367
Qualifying Disbursements	(712,312)	(705,128)
Totals	(\$228,095)	(\$60,761)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$228,095)	\$0
Set-aside Reserve Balance as of June 30, 2004	\$0	\$0

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

Note 20 - State School Funding Decision

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

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

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

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 21 – Related Party Transactions

During 2004, the School District provided accounting and fiscal services to the Massillon Digital Academy (the “Academy”), a discretely presented component unit of the School District. The School District acts as the Sponsor for the Academy. The School District and the Academy entered into a 5-year sponsorship agreement commencing on the first day of the 2002 academic year whereby terms of the sponsorship were established. Pursuant to this agreement, the School District’s treasurer serves as the Academy’s fiscal officer. The School District is to be paid an initial payment of \$25,000 and \$150 per student per year for various services by the Academy; however, the School District waived the \$150 per student for fiscal year 2004.

Note 22 – Massillon Digital Academy

A. Significant Accounting Policies

Accounting Basis The financial statements of the Massillon Digital Academy (the “Academy”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy’s accounting policies are described below.

Basis of Presentation The Academy’s basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

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

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy’s financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

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

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Cash and Cash Equivalents Cash held by the Academy is reflected as “Cash and Cash Equivalents with Fiscal Agents” on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During year 2004, the Academy had no investments.

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

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy also participates in the Federal Charter Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$150,000 to help defray operating costs. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the year ended June 30, 2004, totaled \$172,725.

Capital Assets and Depreciation Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess any infrastructure.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Furniture and Equipment	8
Computers	5

Net Assets Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy had unrestricted net assets of (\$571) and \$2,536 of restricted net assets at year-end.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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

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

Extraordinary and Special Items Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the year ended 2004.

B. Deposits

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

At year-end, the carrying amount of the Academy's deposits was \$85,415 while the bank balance of the Academy's deposits was \$86,075. The bank balance was covered entirely by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

C. Capital Assets

A summary of the Academy's capital assets at June 30, 2004:

	Balance 6/30/2003	Additions	Deductions	Balance 6/30/2004
Furniture and Equipment	\$2,646	\$0	\$0	\$2,646
Computers	5,224	4,704	0	9,928
Total at Historical Cost	7,870	4,704	0	12,574
Less: Accumulated Depreciation	(114)	(1,078)	0	(1,192)
Total Capital Assets, Net	\$7,756	\$3,626	\$0	\$11,382

D. Fiscal Agent

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

The Treasurer of the Massillon City School District shall perform the following functions while serving as the Fiscal Officer of the Academy:

1. Maintain the financial records of the Academy in conformance with generally accepted accounting principles as required by the State Auditor;

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

2. Comply with the operating policies recommended by the State Auditor, including those related to the presentation, review, discussion, and approval or rejection of a line item budget and regular reports of current and encumbered expense;
3. Comply with the requirements and procedures for financial audits by the Auditor of the State.

E. Related Party Transaction

The Academy is a component unit of the Massillon City School District (the "District"). The District is the Academy's sponsor. The Academy and the District entered into a 5-year sponsorship agreement commencing on the first day of the 2002 academic year, whereby terms of the sponsorship were established. Pursuant to this agreement, the District's treasurer serves as the Academy's fiscal officer. The Academy is required to pay an initial payment of \$25,000 and \$150 per student per year to the District, from funding provided to the Academy by the Ohio Department of Education pursuant to Section 3314.08 of the Ohio Revised Code. The Sponsor waived the \$150 per student for the year 2004.

Payments made by the Academy to the Sponsor totaled \$63,385. This represents payment for office space rent, start-up costs, and other related services provided by the Sponsor.

F. Management Consulting Contract

The Academy entered into a two-year contract on March 4, 2003 with Stark/Portage Area Computer Association (SPARCC) for management consulting services. Under the contract, the following terms were agreed upon:

1. SPARCC shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan and the Academy's assessment and accountability plan.
2. All personnel providing services to the Academy on behalf of SPARCC under the agreement shall be employees of SPARCC, and SPARCC shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure, which may be required by law.
3. The technical services provided by SPARCC to the Academy shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
4. In exchange for the services and support (including equipment) provided by SPARCC, the Academy shall pay to SPARCC a fee of \$25,000 for the year 2004.
5. The Academy shall pay to SPARCC \$3,500 per full-time high school student and \$2,500 per full-time K-8 student enrolled in the Academy per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.

G. Risk Management

Insurance Coverage The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended 2004, the Academy contracted with the Indiana Insurance Company through its agent Leonard Insurance Services of Canton, Ohio.

Massillon City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

H. Purchased Services

For the period July 1, 2003 through June 30, 2004, purchased services expenses were payments for professional and technical services to SPARCC in the amount of \$25,000. Purchased services also included payments to Sponsor in the amount of \$88,385 for office space rent, start-up costs, and other related services provided by Sponsor to the Academy. The following is a breakdown of the total purchase services for year June 30, 2004:

Professional and Technical Services	\$171,008
Travel Mileage/Meeting Expense	442
Communications	1,806
Total Purchased Services	<u>\$173,256</u>

I. Contingencies

Grants The Academy received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2004.

Litigation A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2004, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case is set for oral argument on November 18th, 2004. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the State's educational system and the matter was sent to the Ohio Supreme Court. The effect, if any, on the Academy is not presently determinable.

Full Time Equivalency The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. This information was not available as of the date of this report. The Academy does not anticipate any material adjustments to State funding for the period of January 12, 2004 to June 30, 2004 as a result of such review.

J. Start-Up Period

The Academy began its start-up operations in February 2003. At January 12, 2004, the beginning net assets of \$17,361 were made up of cash of \$9,605 and capital assets of \$7,756.

**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF EDUCATION						
<i>(Passed Through the Ohio Department of Education)</i>						
Title I, Part A, ESEA	044354C1S103	84.010	\$108,200		\$124,181	
	044354C1S104		1,042,013		1,012,010	
Total Title I, Part A, ESEA			1,150,213		1,136,191	
Special Education Cluster:						
Special Education - Grants to States	0443546BSF04P	84.027	709,691		689,256	
	0443546BSF03P		69,571		79,150	
	0443546EC2003P		1,767		1,767	
Total Special Education - Grants to States			781,029		770,173	
Special Education - Preschool Grants	044354PGS103P	84.173	12,938		12,938	
Total Special Education Cluster			793,967		783,111	
Adult Education State Grant Program	044354ABS103C	84.002			6,770	
	044354ABS104		72,275		67,214	
Total Adult Education State Grant Program			72,275		73,984	
Improving Teacher Quality State Grants	044354TRS103	84.367	33,327		44,733	
	044354TRS104		300,041		293,085	
Total Improving Teacher Quality State Grants			333,368		337,818	
Vocational Education Basic Grants to States	044354VECPIIS2003092	84.048	17,448		803	
	044354VECPIIS2004092		109,863		103,091	
Total Vocational Education Basic Grants to States			127,311		103,894	
Comprehensive School Reform Demonstration	044354RFCC2003	84.332			2,950	
	044354RFCC2004		60,000		62,942	
	044354RFS12000				5,433	
	044354RFS12001				173	
	044354RFS12002				25,976	
	044354RFS22002		18,750		74,590	
	044354RFS22003		79,094		67,775	
	044354RFCC2004		90,000		60,702	
Total Comprehensive School Reform Demonstration			247,844		300,541	
Goals 2000 - State and Local Education Systemic Improvement Grants	044354G2S92002	84.276	0		1,951	
Safe and Drug-Free Schools Grant	044354DRS12003	84.186	5,323		9,338	
	044354DRS12004		27,670		26,475	
Total Safe and Drug-Free Schools Grant			32,993		35,813	
Innovative Education Program Strategies	044354C2S12003	84.298			2,156	
	044354C2S12004		48,051		48,814	
Total Innovative Education Program Strategies			48,051		50,970	
Reading Excellence Grant	044354RNS12002	84.338	0		17,032	
Twenty-First Century Community Learning Centers	044354T1S12002	84.287			6,711	
	044354T1S12003				45,008	
	044354T1S12004		360,737		306,392	
Total Twenty-First Century Community Learning Centers			360,737		358,111	
Technology Literacy Challenge Fund Grants	044354TJS12003	84.318	624		13,712	
	044354TJS12004		30,496		27,532	
Total Technology Literacy Challenge Fund Grants			31,120		41,244	
Total U.S. Department of Education			3,197,879		3,240,660	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>(Passed through the Ohio Department of Mental Retardation and Developmental Disabilities)</i>						
Medical Assistance Program (CAFS)	N/A	93.778	64,151		125,796	
U.S. DEPARTMENT OF AGRICULTURE						
<i>(Passed Through Ohio Department of Education)</i>						
Child Nutrition Cluster:						
Food Distribution Program	N/A	10.550		\$128,289		\$128,289
National School Breakfast Program	N/A	10.553	94,854		94,854	
National School Lunch Program	N/A	10.555	630,906		630,906	
Total U.S. Department of Agriculture/Child Nutrition Cluster			725,760	128,289	725,760	128,289
Totals			\$3,987,790	\$128,289	\$4,092,216	\$128,289

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

**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the basic financial statements of the governmental activities, each major fund and the aggregate discretely presented component units and remaining fund information of the Massillon City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated February 11, 2005, wherein we noted the Governmental Activities net asset balance was restated to correct the capital appreciation bond error. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could 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 we must report under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated February 11, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as 2004-001.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated February 11, 2005.

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



Betty Montgomery
Auditor of State

February 11, 2005



Auditor of State Betty Montgomery

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

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

Compliance

We have audited the compliance of the Massillon City School District, Stark County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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 other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to the District's management in a separate letter dated February 11, 2005.

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



Betty Montgomery
Auditor of State

February 11, 2005

**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster CFDA #10.550, 10.553, 10.555; Special Education Cluster CFDA #84.027, 84.173; Improving Teacher Quality State Grants CFDA #84.367; and Twenty-First Century Community Learning Centers Grant CFDA #84.287
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2004-001

Reportable Condition

Athletic Ticket Office

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

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

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

To improve accountability and internal controls, we recommend:

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

FINDING NUMBER 2004-001 (Continued)

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

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

**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315(b)
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	Athletic Ticket Office – No master inventory of tickets was maintained, lack of documentation to monitor the sale of high school athletic season and presale ticket sales was not maintained, Ticket Taker reports were not maintained, no system of accountability for middle school events and no formal reconciliation between the District's Receipt Ledger and Ticket Office.	No	Not Corrected – See Finding 2004-001
2003-002	Capital Assets – A complete and accurate additions/deletions list was not maintained, accumulated depreciation was incorrectly calculated, textbooks were not reflected as capital assets.	No	Partially Corrected – See Management Letter
2003-003	Title 7 CFR Section and 245.6(a) – For certain schools tested, inadequate income eligibility verification was maintained resulting in inaccurate determinations.	Yes	Finding No Longer Valid
2003-004	Child Nutrition Cluster – Original source documents (i.e., cash register tapes, Daily Breakfast and Lunch Reports) were missing, not reconciled to cash collected, contained inaccurate head counts.	No	Partially Corrected – See Management Letter



**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

**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 5, 2005**