



Dave Yost • Auditor of State

**CITY OF MASSILLON
STARK COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Massillon, Stark County, Ohio (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Government's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Government's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Massillon, Stark County, Ohio, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General and Parks and Recreation Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the City restated Capital Assets in the Governmental and Business Type Activities due to an asset being improperly recorded as a governmental activities asset instead of a business-type asset and the City reclassifying a fund from business-type to governmental. Also, as discussed in Note 22 Local Government Services is conducting a fiscal analysis on the financial condition of the City.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the City's basic financial statements taken as a whole.

The Federal Award Expenditures Schedule (the Schedule) presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Dave Yost
Auditor of State
Columbus, Ohio

October 11, 2013

City of Massillon
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

The discussion and analysis of the City of Massillon's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key Financial highlights for 2012 are as follows:

- During 2012, the City issued 2012 various improvement refunding bonds to retire outstanding parks and recreation and senior center debt and save money over the life of the bonds.
- Expenses decreased significantly from the prior year due to the City's reduction in workforce, healthcare cost savings, pay freezes, outsourcing of trash collection services, and other financial sacrifices from employees. The Auditor's office continues to monitor the approval of all purchases.
- Governmental revenues increased significantly due to higher than expected income tax collections. This increase was offset by a continued reduction in local government intergovernmental revenue.

Using This Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand the City of Massillon as a financial whole or as an entire operating entity. The statements provide a detailed look at the City's specific financial conditions.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major 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 dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column. In the case of the City, there are two major governmental funds and two major proprietary funds.

Reporting the City of Massillon as a Whole

Statement of Net Position and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole considers all financial transactions and asks the question, "How did we do financially during 2012?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting method used by the private sector. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net position and the changes in net position. The change in assets is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets also needs to be evaluated.

City of Massillon
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

The Statement of Net Position and the Statement of Activities are divided into the following categories:

- Assets
- Deferred Outflows of Resources
- Liabilities
- Deferred Inflows of Resources
- Net Position
- Program Expenses and Revenues
- General Revenues
- Net Position Beginning of Year and Year's End

Reporting the City of Massillon's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The City of Massillon uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The presentation of the City's major funds begins on page 14. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds, which account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Massillon, the major governmental funds are the general fund and the parks and recreation special revenue fund. An analysis of the City's major governmental funds begins on page 8.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Most City activities are reported in the governmental funds focusing on how money flows into and out of those funds and the balances left at year end available for future spending. These funds are reported using the modified accrual accounting method. The modified accrual method measures cash and all other financial assets expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information helps determine the level of financial resources that can be spent in the near future on residential services. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the City's programs. These funds use the accrual basis of accounting.

City of Massillon
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

The City of Massillon as a Whole

Recall that the Statement of Net Position pictures the City as a whole. Table 1 provides a summary of the City's net position for 2012 compared to 2011.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
		Restated		Restated		Restated
	2012	2011	2012	2011	2012	2011
Assets						
Current and Other Assets	\$14,792,736	\$14,667,384	\$8,760,284	\$7,322,632	\$23,553,020	\$21,990,016
Capital Assets, Net	38,038,531	38,474,964	42,293,167	43,725,066	80,331,698	82,200,030
<i>Total Assets</i>	<u>52,831,267</u>	<u>53,142,348</u>	<u>51,053,451</u>	<u>51,047,698</u>	<u>103,884,718</u>	<u>104,190,046</u>
Deferred Outflows of Resources	394,460	32,261	0	0	394,460	32,261
Liabilities						
Current and Other Liabilities	3,352,170	4,053,032	622,983	702,110	3,975,153	4,755,142
Long-Term Liabilities:						
Due Within One Year	1,443,694	1,746,694	2,189,549	2,154,504	3,633,243	3,901,198
Due in More than One Year	27,298,117	28,070,410	24,176,441	26,357,727	51,474,558	54,428,137
<i>Total Liabilities</i>	<u>32,093,981</u>	<u>33,870,136</u>	<u>26,988,973</u>	<u>29,214,341</u>	<u>59,082,954</u>	<u>63,084,477</u>
Deferred Inflows of Resources	1,654,907	1,797,733	0	0	1,654,907	1,797,733
Net Position						
Net Investment in Capital Assets	16,616,619	16,197,260	16,236,081	15,606,438	32,852,700	31,803,698
Restricted:						
Capital Projects	691,335	664,144	0	0	691,335	664,144
Debt Service	1,258,658	1,231,852	0	0	1,258,658	1,231,852
Transportation	862,128	556,940	0	0	862,128	556,940
Economic Development	2,237,300	1,961,849	0	0	2,237,300	1,961,849
Other Purposes	747,622	769,853	0	0	747,622	769,853
Unclaimed Monies	20,430	22,251	0	0	20,430	22,251
Unrestricted (Deficit)	(2,957,253)	(3,897,409)	7,828,397	6,226,919	4,871,144	2,329,510
<i>Total Net Position</i>	<u>\$19,476,839</u>	<u>\$17,506,740</u>	<u>\$24,064,478</u>	<u>\$21,833,357</u>	<u>\$43,541,317</u>	<u>\$39,340,097</u>

Total governmental activities assets and liabilities decreased and net position increased from 2011 to 2012. Although 2012 was a tough economic year, income tax revenues increased significantly, the City implemented decisions to help control costs and made an effort to maintain net position relatively constant. Capital assets reported on the government-wide statements represent the largest portion of the City's assets. A decrease in capital assets was the main cause of the decrease in assets, due to annual depreciation on capital assets, partially offset by current year additions. Capital assets include land, construction in progress, land improvements, buildings and improvements, vehicles, machinery and equipment and infrastructure. Net investment in capital assets to acquire the assets at December 31, 2012, were \$32,852,700. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

Total net position for the business-type activity increased in 2012 from 2011. The business-type activities had an increase in the net investment in capital assets due to the decrease in outstanding debt.

City of Massillon
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Table 2 shows the changes in net position for the year ended December 31, 2012 compared to 2011.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues:						
Charges for Services, Sales and Assessments	\$5,304,902	\$5,183,095	\$10,102,021	\$9,624,178	\$15,406,923	\$14,807,273
Operating Grants and Contributions	2,841,712	2,666,861	0	576,455	2,841,712	3,243,316
Capital Grants and Contributions	1,673,548	925,021	0	0	1,673,548	925,021
Total Program Revenues	9,820,162	8,774,977	10,102,021	10,200,633	19,922,183	18,975,610
General Revenues:						
Property Taxes	1,571,007	1,598,384	0	0	1,571,007	1,598,384
Income Taxes	14,837,540	13,696,092	0	300,534	14,837,540	13,996,626
Intergovernmental	1,323,761	1,522,894	0	0	1,323,761	1,522,894
Payment in Lieu of Taxes	261,146	255,712	0	0	261,146	255,712
Interest	74,320	179,216	0	0	74,320	179,216
Gain on Sale of Capital Assets	0	24,940	0	0	0	24,940
Other	975,527	1,020,568	8,642	156,471	984,169	1,177,039
Total General Revenues	19,043,301	18,297,806	8,642	457,005	19,051,943	18,754,811
Total Revenues	28,863,463	27,072,783	10,110,663	10,657,638	38,974,126	37,730,421
Program Expenses						
Governmental Activities:						
General Government	6,882,943	6,720,984	0	0	6,882,943	6,720,984
Security of Persons and Property	10,069,744	11,405,711	0	0	10,069,744	11,405,711
Transportation	3,437,213	3,765,281	0	0	3,437,213	3,765,281
Public Health and Welfare	602,716	637,525			602,716	637,525
Leisure Time Activities	3,710,260	3,923,149	0	0	3,710,260	3,923,149
Basic Utility Service	4,060	10,077	0	0	4,060	10,077
Economic Development and Assistance	759,723	1,019,754	0	0	759,723	1,019,754
Urban Redevelopment and Housing	30,872	182,610	0	0	30,872	182,610
Interest and Fiscal Charges	1,395,833	1,265,248	0	0	1,395,833	1,265,248
Wastewater	0	0	6,845,860	7,469,457	6,845,860	7,469,457
Solid Waste	0	0	1,033,682	1,050,452	1,033,682	1,050,452
Golf Course	0	0	0	344,228	0	344,228
Total Expenses	26,893,364	28,930,339	7,879,542	8,864,137	34,772,906	37,794,476
Increase (Decrease) in Net Position	1,970,099	(1,857,556)	2,231,121	1,793,501	4,201,220	(64,055)
Net Position Beginning of Year - Restated (See Note 3)	17,506,740	19,364,296	21,833,357	20,039,856	39,340,097	39,404,152
Net Position End of Year	\$19,476,839	\$17,506,740	\$24,064,478	\$21,833,357	\$43,541,317	\$39,340,097

City of Massillon
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Governmental Activities

Governmental activities net position increased in 2012. The funding for governmental activities comes from several different sources, with municipal income tax being the largest contributor. Income tax revenues increased significantly from 2011 to 2012 due to an increase in withholdings and more delinquent income tax being collected for 2012. The City's governmental expenses decreased primarily to a reduction in security of persons and property expenses related to employees paying a larger portion of insurance premiums and reductions in staff.

Security of persons and property represents the highest program expense for the City by a large margin. This expense category is made up of all of the expenses and related activities of the City's police and fire departments. The police department consists of a full-time police chief who oversees full-time and part-time police officers and communication specialists. The police department is funded primarily from revenues generated through the City's income tax, fines, and forfeitures and is presented within the general fund.

Charges for services represents revenues from community development, municipal court fees, law enforcement, parking fees, waste management fees, indigent drivers fees, clerk of courts fees, special assessments, and parks and recreation fees. Operating and capital grants and contributions are represented mainly of revenues received from other governments for a specific purpose.

General revenues accounted for a large portion of total governmental revenues. These revenues primarily consist of property and income tax revenue. The other primary source of general revenues is grants and entitlements not restricted to specific programs, with local government, and local government revenue assistance making up a majority of the total general revenues.

Business-Type Activities

The wastewater and solid waste funds are the City's enterprise funds. Collectively, these programs had revenues in excess of expenses for 2012. Business-type activities reported an increase in total net position from 2011. This increase was due to total revenues exceeding total expenses; overall revenues remained consistent with the prior year and expenses decreased due to the elimination of the Legends golf course fund and its activity being accounted for in the parks and recreation special revenue fund beginning in 2012.

The City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The general fund is the operating fund of the City. At the end of the year, the fund balance deficit of the general fund was (\$1,126,004), a slight increase from prior year fund balance of (\$1,183,067). The primary reason for the increase of the general fund balance in 2012 was attributed to an increase in income tax revenue. The overall increase in revenues in 2012 compared to 2011 was \$693,633.

The parks and recreation special revenue fund had an increase in fund balance of \$247,173. This was achieved by a reduction of expenditures in the current year by \$148,115, as revenue in the current year slightly decreased from the prior year.

General Fund Budgeting Highlights

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

City of Massillon
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

The most significant budgeted governmental fund is the general fund. The final budget (estimated) revenue exceeded the original estimated revenue by \$3,556,906. The most significant variance between the original budgeted revenue and final budgeted revenue amounts was to income taxes revenue due to higher withholdings for large companies and higher delinquent collections. Overall, total actual revenues matched estimated revenues. During the year, these estimates were changed as new information was made available.

Final budgeted expenditures increased \$1,766,837 or 12.5 percent over the original budgeted amounts. This increase was adjusted along with the estimated resources that were anticipated to be available. Budgeted expenditures are not allowed to exceed estimated resources that are certified by the County Auditor. As additional resources are identified the certification is amended and budgeted expenditures can be adjusted accordingly. The actual expenditures exceeded final budget expenditures and encumbrances by \$1,384,955.

Capital Assets and Debt Administration

Capital Assets

Table 3 shows the changes in capital assets for the year ended December 31, 2012 compared to 2011.

Table 3
 Capital Assets at December 31
 (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2012	Restated 2011	2012	Restated 2011	2012	Restated 2011
Land	\$10,948,303	\$10,888,703	\$59,400	\$59,400	\$11,007,703	\$10,948,103
Construction in Progress	607,169	70,015	99,472	464,916	706,641	534,931
Land Improvements	2,394,221	2,573,522	0	0	2,394,221	2,573,522
Buildings and Improvements	8,036,934	8,403,388	1,091,044	1,265,388	9,127,978	9,668,776
Vehicles	980,044	816,904	465,800	564,717	1,445,844	1,381,621
Machinery and Equipment	698,654	871,873	659,064	179,411	1,357,718	1,051,284
Infrastructure	14,373,206	14,850,559	39,918,387	41,191,234	54,291,593	56,041,793
Total Capital Assets	\$38,038,531	\$38,474,964	\$42,293,167	\$43,725,066	\$80,331,698	\$82,200,030

At the end of 2012, the City had \$80,331,698 in capital assets (net of accumulated depreciation). Of this total, \$38,038,531 was reported in governmental activities and \$42,293,167 was reported in business-type activities.

For governmental activities, the decrease in total capital assets was due to annual depreciation exceeding additions.

For business-type activities, the decrease in total capital assets was due primarily from current year depreciation expense. See Note 13 to the basic financial statements for detail on governmental and business-type activities capital assets.

Debt

At December 31, 2012, the City had total long-term obligations outstanding of \$55,107,801. Of this total, \$3,633,243 is due within one year and \$51,474,558 is due in more than one year.

City of Massillon
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Table 4 below summarizes the long-term obligations outstanding:

Table 4
 Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities		Total	
	Restated		Restated		Restated	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$22,025,133	\$22,463,708	\$0	\$0	\$22,025,133	\$22,463,708
Loans Payable	1,903,603	2,008,235	26,057,086	28,118,628	27,960,689	30,126,863
Police and Fire Pension	1,337,035	1,372,084	0	0	1,337,035	1,372,084
Compensated Absences	2,916,040	3,302,354	308,904	393,603	3,224,944	3,695,957
Judgement Payable	560,000	630,000	0	0	560,000	630,000
Capital Leases	0	40,723	0	0	0	40,723
Total	\$28,741,811	\$29,817,104	\$26,365,990	\$28,512,231	\$55,107,801	\$58,329,335

All governmental long-term debt will be repaid by the general fund, street construction, state highway, community development, WIC program, parks and recreation, and police and fire pension special revenue funds, the debt retirement debt service fund, and the marketplace infrastructure TIF and income tax capital improvements capital projects funds. All business-type long-term debt will be repaid by the solid waste and wastewater enterprise funds.

At December 31, 2012, the City's overall legal debt margin was \$35,677,027 with an unvoted debt margin of \$7,189,776. The City's credit rating remained unchanged in 2012 as compared to 2011. See Note 16 to the basic financial statements for details on the City's long-term obligations.

Current Financial Related Activities

In 2013, a performance audit initiative was approved. These audits are performed by the State of Ohio Auditor's office and will focus on three of the larger budgeted departments, including the parks and recreation department, Legends golf course, and the police department. The fire department audit will be conducted by the Ohio Fire Chiefs Association and the City anticipates these specialized audits will result in recommendations leading to more savings and efficiencies for these significant areas of the City.

The labor union contracts between the City and AFSCME Ohio Council 8, and Local 996 AFL-CIO were successfully negotiated and became effective March 1, 2013. These contracts include health care cost savings and pay freezes, similar to what was negotiated with the Police and Fire labor unions in 2012.

As a result of the outsourcing and sale of the City's solid waste enterprise, seven of the remaining Solid Waste Department personnel were transferred into the Street Department on January 1, 2013. Due to a lack of funds, seven City employees in the newly organized Streets and Highways Division of the Public Works Department were laid off, effective March 29, 2013.

Contacting the City's Finance Department

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

City of Massillon, Ohio

Statement of Net Position

December 31, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,302,983	\$5,799,094	\$8,102,077
Cash Equivalents in Segregated Accounts	139,320	0	139,320
Materials and Supplies Inventory	136,578	6,500	143,078
Accrued Interest Receivable	1,169,578	0	1,169,578
Accounts Receivable	765,475	2,615,538	3,381,013
Loans Receivable	3,307,215	0	3,307,215
Intergovernmental Receivable	2,158,127	339,152	2,497,279
Income Taxes Receivable	2,896,106	0	2,896,106
Property Taxes Receivable	1,650,296	0	1,650,296
Payment in Lieu of Taxes Receivable	267,058	0	267,058
Nondepreciable Capital Assets	11,555,472	158,872	11,714,344
Depreciable Capital Assets, Net	26,483,059	42,134,295	68,617,354
<i>Total Assets</i>	<u>52,831,267</u>	<u>51,053,451</u>	<u>103,884,718</u>
Deferred Outflows of Resources			
Deferred Charge on Refunding	394,460	0	394,460
Liabilities			
Accounts Payable	536,311	232,301	768,612
Accrued Wages	450,580	81,766	532,346
Contracts Payable	229,021	154,691	383,712
Matured Compensated Absences Payable	0	65,805	65,805
Intergovernmental Payable	1,783,496	88,420	1,871,916
Accrued Interest Payable	102,771	0	102,771
Claims Payable	249,991	0	249,991
Long-Term Liabilities:			
Due Within One Year	1,443,694	2,189,549	3,633,243
Due In More Than One Year	27,298,117	24,176,441	51,474,558
<i>Total Liabilities</i>	<u>32,093,981</u>	<u>26,988,973</u>	<u>59,082,954</u>
Deferred Inflows of Resources			
Property Taxes	1,387,849	0	1,387,849
Payment in Lieu of Taxes Not Levied to Finance			
Current Year Operations	267,058	0	267,058
<i>Total Deferred Inflows of Resources</i>	<u>1,654,907</u>	<u>0</u>	<u>1,654,907</u>
Net Position			
Net Investment in Capital Assets	16,616,619	16,236,081	32,852,700
Restricted for:			
Capital Projects	691,335	0	691,335
Debt Service	1,258,658	0	1,258,658
Transportation	862,128	0	862,128
Economic Development	2,237,300	0	2,237,300
Other Purposes	747,622	0	747,622
Unclaimed Monies	20,430	0	20,430
Unrestricted (Deficit)	(2,957,253)	7,828,397	4,871,144
<i>Total Net Position</i>	<u>\$19,476,839</u>	<u>\$24,064,478</u>	<u>\$43,541,317</u>

City of Massillon, Ohio
Statement of Activities
For the Year Ended December 31, 2012

	Expenses	Program Revenues		
		Charges for Services, Sales and Assessments	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$6,882,943	\$1,549,961	\$46,894	\$0
Security of Persons and Property	10,069,744	1,378,914	60,337	0
Transportation	3,437,213	294,060	1,601,657	1,673,548
Public Health and Welfare	602,716	197,711	131,835	0
Leisure Time Activities	3,710,260	1,884,256	82,906	0
Basic Utility Service	4,060	0	658	0
Economic Development and Assistance	759,723	0	861,553	0
Urban Redevelopment and Housing	30,872	0	55,872	0
Interest and Fiscal Charges	1,395,833	0	0	0
<i>Total Governmental Activities</i>	<u>26,893,364</u>	<u>5,304,902</u>	<u>2,841,712</u>	<u>1,673,548</u>
Business-Type Activities:				
Wastewater	6,845,860	9,016,184	0	0
Solid Waste	1,033,682	1,085,837	0	0
<i>Total Business-Type Activities</i>	<u>7,879,542</u>	<u>10,102,021</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$34,772,906</u>	<u>\$15,406,923</u>	<u>\$2,841,712</u>	<u>\$1,673,548</u>

General Revenues

Property Taxes Levied for:

General Purposes

Police and Fire Pension

Income Tax Levied for:

General Purposes

Debt Services

Capital Improvements

Leisure Time Activities

Grants and Entitlements not Restricted to Specific Programs

Payment in Lieu of Taxes

Interest

Other

Total General Revenues

Change in Net Position

*Net Position Beginning
of Year - Restated (See Note 3)*

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
(\$5,286,088)	\$0	(\$5,286,088)
(8,630,493)	0	(8,630,493)
132,052	0	132,052
(273,170)	0	(273,170)
(1,743,098)	0	(1,743,098)
(3,402)	0	(3,402)
101,830	0	101,830
25,000	0	25,000
(1,395,833)	0	(1,395,833)
(17,073,202)	0	(17,073,202)
0	2,170,324	2,170,324
0	52,155	52,155
0	2,222,479	2,222,479
(17,073,202)	2,222,479	(14,850,723)
1,280,629	0	1,280,629
290,378	0	290,378
12,322,272	0	12,322,272
1,381,858	0	1,381,858
45,133	0	45,133
1,088,277	0	1,088,277
1,323,761	0	1,323,761
261,146	0	261,146
74,320	0	74,320
975,527	8,642	984,169
19,043,301	8,642	19,051,943
1,970,099	2,231,121	4,201,220
17,506,740	21,833,357	39,340,097
\$19,476,839	\$24,064,478	\$43,541,317

City of Massillon, Ohio

Balance Sheet

Governmental Funds

December 31, 2012

	<u>General</u>	<u>Parks and Recreation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$0	\$0	\$2,277,946	\$2,277,946
Cash and Cash Equivalents:				
In Segregated Accounts	98,395	0	40,925	139,320
Materials and Supplies Inventory	82,306	54,272	0	136,578
Accrued Interest Receivable	4,342	0	1,165,236	1,169,578
Accounts Receivable	0	57,123	708,352	765,475
Loans Receivable	0	0	3,307,215	3,307,215
Interfund Receivable	70,000	476,196	579,132	1,125,328
Intergovernmental Receivable	660,239	0	1,497,888	2,158,127
Income Taxes Receivable	2,355,693	209,244	331,169	2,896,106
Property Taxes Receivable	1,337,148	0	313,148	1,650,296
Payment in Lieu of Taxes Receivable	0	0	267,058	267,058
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	20,430	0	0	20,430
<i>Total Assets</i>	<u>\$4,628,553</u>	<u>\$796,835</u>	<u>\$10,488,069</u>	<u>\$15,913,457</u>
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Accounts Payable	\$433,588	\$66,201	\$36,522	\$536,311
Accrued Wages	383,958	30,708	35,914	450,580
Contracts Payable	89,206	1,788	138,027	229,021
Interfund Payable	950,328	175,000	0	1,125,328
Intergovernmental Payable	1,409,193	48,169	326,134	1,783,496
<i>Total Liabilities</i>	<u>3,266,273</u>	<u>321,866</u>	<u>536,597</u>	<u>4,124,736</u>
Deferred Inflows of Resources				
Property Tax	1,125,621	0	262,228	1,387,849
Payment in Lieu of Taxes	0	0	267,058	267,058
Unavailable Revenues	1,362,663	124,107	2,998,759	4,485,529
<i>Total Deferred Inflows of Resources</i>	<u>2,488,284</u>	<u>124,107</u>	<u>3,528,045</u>	<u>6,140,436</u>
Fund Balances				
Nonspendable	172,736	54,272	0	227,008
Restricted	0	0	5,609,156	5,609,156
Committed	0	296,590	736,016	1,032,606
Assigned	28,531	0	78,255	106,786
Unassigned (Deficit)	(1,327,271)	0	0	(1,327,271)
<i>Total Fund Balances (Deficit)</i>	<u>(1,126,004)</u>	<u>350,862</u>	<u>6,423,427</u>	<u>5,648,285</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$4,628,553</u>	<u>\$796,835</u>	<u>\$10,488,069</u>	<u>\$15,913,457</u>

See accompanying notes to the basic financial statements

City of Massillon, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2012*

Total Governmental Fund Balances	\$5,648,285
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	38,038,531
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds:	
Property Taxes	250,817
Income Tax	962,977
Grants	1,343,620
Accrued Interest	1,165,236
Charges for Services	762,879
Total	4,485,529
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	(245,384)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(102,771)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(20,316,755)
Deferred Charge on Refunding	394,460
Accretion	(542,364)
Capital Appreciation Bonds	(1,166,014)
Police and Fire Pension	(1,337,035)
Loans Payable	(1,903,603)
Compensated Absences	(2,916,040)
Claims and Judgements	(560,000)
Total	(28,347,351)
 <i>Net Position of Governmental Activities</i>	 \$19,476,839

See accompanying notes to the basic financial statements

City of Massillon, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012

	General	Parks and Recreation	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$1,296,397	\$0	\$283,560	\$1,579,957
Income Taxes	12,149,306	1,090,134	1,385,456	14,624,896
Payment in Lieu of Taxes	0	0	261,146	261,146
Special Assessments	0	0	381	381
Intergovernmental	1,471,257	2,000	4,007,455	5,480,712
Interest	8,269	0	0	8,269
Licenses and Permits	335,151	31,839	76,310	443,300
Fines and Forfeitures	1,176,865	0	626,391	1,803,256
Charges for Services	1,057,915	1,817,099	188,360	3,063,374
Contributions and Donations	0	0	80,906	80,906
Other	264,116	392,940	259,677	916,733
<i>Total Revenues</i>	<u>17,759,276</u>	<u>3,334,012</u>	<u>7,169,642</u>	<u>28,262,930</u>
Expenditures				
Current:				
General Government	5,857,577	0	749,652	6,607,229
Security of Persons and Property	8,761,038	0	1,359,938	10,120,976
Transportation	1,099,650	0	1,305,320	2,404,970
Public Health and Welfare	326,907	0	269,124	596,031
Leisure Time Activities	0	3,086,839	53,919	3,140,758
Basic Utility Service	0	0	4,060	4,060
Economic Development and Assistance	7,704	0	827,824	835,528
Urban Redevelopment and Housing	0	0	30,872	30,872
Capital Outlay	0	0	1,469,775	1,469,775
Debt Service:				
Principal Retirement	0	0	1,285,987	1,285,987
Interest and Fiscal Charges	0	0	1,018,117	1,018,117
Issuance Costs	0	0	188,195	188,195
<i>Total Expenditures</i>	<u>16,052,876</u>	<u>3,086,839</u>	<u>8,562,783</u>	<u>27,702,498</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,706,400</u>	<u>247,173</u>	<u>(1,393,141)</u>	<u>560,432</u>
Other Financing Sources (Uses)				
Refunding Bonds Issued	0	0	8,505,000	8,505,000
Payment to Refunded Bond Escrow Agent	0	0	(8,244,540)	(8,244,540)
Discount on Bonds Issued	0	0	(72,265)	(72,265)
Transfers In	0	0	1,649,337	1,649,337
Transfers Out	(1,649,337)	0	0	(1,649,337)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,649,337)</u>	<u>0</u>	<u>1,837,532</u>	<u>188,195</u>
<i>Net Change in Fund Balances</i>	57,063	247,173	444,391	748,627
<i>Fund Balances (Deficit) Beginning of Year - Restated (See Note 3)</i>	<u>(1,183,067)</u>	<u>103,689</u>	<u>5,979,036</u>	<u>4,899,658</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$1,126,004)</u>	<u>\$350,862</u>	<u>\$6,423,427</u>	<u>\$5,648,285</u>

See accompanying notes to the basic financial statements

City of Massillon, Ohio
*Reconciliation of Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2012*

Net Change in Fund Balances - Total Governmental Funds \$748,627

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

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

Capital Asset Additions	1,445,933	
Current Year Depreciation	(1,874,719)	
Total		(428,786)

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. (7,647)

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

Property Taxes	(8,950)	
Income Tax	212,644	
Grants	277,403	
Accrued Interest	66,051	
Charges for Services	(5,409)	
Total		541,739

Other financing sources in the government at funds that increase long-term liabilities in the statement of net position are not reported as revenues in the statement of activities:

General Obligation Bonds Issued	(8,505,000)	
Discount on General Obligation Bonds Issued	72,265	
Total		(8,432,735)

Repayment of debt and other long-term liabilities is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position. 9,530,527

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

Accrued Interest	(72,907)	
Unamortized Loss	(37,341)	
Bond Accretion	(71,092)	
Amortization of Discount	(8,181)	
Total		(189,521)

Some expenses reported in the statement of activities such as compensated absences and claims and judgements do not require the use of current financial resources and therefore are not reported as an expenditure in governmental funds. 456,314

The internal service funds used by management to charge the cost of insurance to individual funds is not reported in the entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year. (248,419)

Change in Net Position of Governmental Activities \$1,970,099

See accompanying notes to the basic financial statements

City of Massillon, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$1,032,588	\$1,295,904	\$1,295,904	\$0
Income Taxes	9,403,329	11,801,231	11,801,231	0
Intergovernmental	1,263,302	1,585,451	1,585,451	0
Interest	3,135	3,935	3,935	0
Licenses and Permits	254,916	319,921	319,921	0
Fines and Forfeitures	907,305	1,138,673	1,138,673	0
Charges for Services	873,332	1,096,037	1,096,037	0
Other	210,445	264,106	264,106	0
<i>Total Revenues</i>	<u>13,948,352</u>	<u>17,505,258</u>	<u>17,505,258</u>	<u>0</u>
Expenditures				
Current:				
General Government	5,673,364	6,331,030	6,126,393	204,637
Security of Persons and Property	6,689,358	7,596,643	9,272,970	(1,676,327)
Transportation	1,436,532	1,602,051	1,525,248	76,803
Public Health and Welfare	315,003	351,370	341,438	9,932
<i>Total Expenditures</i>	<u>14,114,257</u>	<u>15,881,094</u>	<u>17,266,049</u>	<u>(1,384,955)</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(165,905)	1,624,164	239,209	(1,384,955)
Other Financing Uses				
Transfers Out	<u>(1,649,337)</u>	<u>(1,649,337)</u>	<u>(1,649,337)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(1,815,242)	(25,173)	(1,410,128)	(1,384,955)
<i>Fund Deficit Beginning of Year</i>	(862,983)	(862,983)	(862,983)	0
Prior Year Encumbrances Appropriated	<u>885,650</u>	<u>885,650</u>	<u>885,650</u>	<u>0</u>
<i>Fund Deficit End of Year</i>	<u>(\$1,792,575)</u>	<u>(\$2,506)</u>	<u>(\$1,387,461)</u>	<u>(\$1,384,955)</u>

See accompanying notes to the basic financial statements

City of Massillon, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Parks and Recreation Fund
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Income Taxes	\$1,049,470	\$1,093,760	\$1,093,760	\$0
Intergovernmental	1,919	2,000	2,000	0
Licenses and Permits	30,550	31,839	31,839	0
Charges for Services	1,741,033	1,814,508	1,814,508	0
Other	377,028	392,940	392,940	0
<i>Total Revenues</i>	<u>3,200,000</u>	<u>3,335,047</u>	<u>3,335,047</u>	<u>0</u>
Expenditures				
Current:				
General Government	15,062	15,062	15,062	0
Leisure Time Activities	3,138,282	3,349,783	3,269,123	80,660
<i>Total Expenditures</i>	<u>3,153,344</u>	<u>3,364,845</u>	<u>3,284,185</u>	<u>80,660</u>
<i>Net Change in Fund Balance</i>	46,656	(29,798)	50,862	80,660
<i>Fund Balance Beginning of Year</i>	220,611	220,611	220,611	0
Prior Year Encumbrances Appropriated	84,626	84,626	84,626	0
<i>Fund Balance End of Year</i>	<u>\$351,893</u>	<u>\$275,439</u>	<u>\$356,099</u>	<u>\$80,660</u>

See accompanying notes to the basic financial statements

City of Massillon, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2012

	Wastewater	Solid Waste	Total	Governmental Activities- Internal Service Fund
Assets				
<i>Current Assets:</i>				
Equity in Pooled Cash and Cash Equivalents	\$5,686,099	\$112,995	\$5,799,094	\$4,607
Accounts Receivable	2,560,727	54,811	2,615,538	0
Intergovernmental Receivable	339,152	0	339,152	0
Materials and Supplies Inventory	6,500	0	6,500	0
<i>Total Current Assets</i>	<u>8,592,478</u>	<u>167,806</u>	<u>8,760,284</u>	<u>4,607</u>
<i>Non-Current Assets:</i>				
Nondepreciable Capital Assets	158,872	0	158,872	0
Depreciable Capital Assets, Net	41,892,320	241,975	42,134,295	0
<i>Total Non-Current Assets</i>	<u>42,051,192</u>	<u>241,975</u>	<u>42,293,167</u>	<u>0</u>
<i>Total Assets</i>	<u>50,643,670</u>	<u>409,781</u>	<u>51,053,451</u>	<u>4,607</u>
Liabilities				
<i>Current Liabilities:</i>				
Accounts Payable	226,560	5,741	232,301	0
Accrued Wages	65,579	16,187	81,766	0
Contracts Payable	147,129	7,562	154,691	0
Intergovernmental Payable	72,036	16,384	88,420	0
Matured Compensated Absences Payable	65,805	0	65,805	0
Compensated Absences Payable	6,963	629	7,592	0
OWDA Loans Payable	2,181,957	0	2,181,957	0
Claims Payable	0	0	0	249,991
<i>Total Current Liabilities</i>	<u>2,766,029</u>	<u>46,503</u>	<u>2,812,532</u>	<u>249,991</u>
<i>Long-Term Liabilities (net of current portion):</i>				
Compensated Absences Payable	184,767	116,545	301,312	0
OWDA Loans Payable	23,875,129	0	23,875,129	0
<i>Total Long-Term Liabilities</i>	<u>24,059,896</u>	<u>116,545</u>	<u>24,176,441</u>	<u>0</u>
<i>Total Liabilities</i>	<u>26,825,925</u>	<u>163,048</u>	<u>26,988,973</u>	<u>249,991</u>
Net Position				
Net Investment in Capital Assets	15,994,106	241,975	16,236,081	0
Unrestricted (Deficit)	7,823,639	4,758	7,828,397	(245,384)
<i>Total Net Position (Deficit)</i>	<u>\$23,817,745</u>	<u>\$246,733</u>	<u>\$24,064,478</u>	<u>(\$245,384)</u>

See accompanying notes to the basic financial statements

City of Massillon, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2012*

	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
Operating Revenues				
Charges for Services	\$9,016,184	\$1,085,837	\$10,102,021	\$1,040
Other	8,297	345	8,642	58,794
<i>Total Operating Revenues</i>	<u>9,024,481</u>	<u>1,086,182</u>	<u>10,110,663</u>	<u>59,834</u>
Operating Expenses				
Personal Services	1,739,232	520,592	2,259,824	0
Fringe Benefits	703,857	216,361	920,218	0
Contractual Services	1,778,878	159,117	1,937,995	0
Materials and Supplies	772,176	53,913	826,089	0
Depreciation	1,559,489	82,702	1,642,191	0
Claims	0	0	0	308,253
Refunds	437	997	1,434	0
<i>Total Operating Expenses</i>	<u>6,554,069</u>	<u>1,033,682</u>	<u>7,587,751</u>	<u>308,253</u>
<i>Operating Income (Loss)</i>	2,470,412	52,500	2,522,912	(248,419)
Non-Operating Expenses				
Interest and Fiscal Charges	(291,791)	0	(291,791)	0
<i>Change in Net Position</i>	2,178,621	52,500	2,231,121	(248,419)
<i>Net Position Beginning of Year - Restated (See Note 3)</i>	<u>21,639,124</u>	<u>194,233</u>	<u>21,833,357</u>	<u>3,035</u>
<i>Net Position (Deficit) End of Year</i>	<u><u>\$23,817,745</u></u>	<u><u>\$246,733</u></u>	<u><u>\$24,064,478</u></u>	<u><u>(\$245,384)</u></u>

See accompanying notes to the basic financial statements

City of Massillon, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2012

	Wastewater	Solid Waste	Total	Governmental Activities - Internal Service Fund
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash received from customers	\$8,785,708	\$1,058,287	\$9,843,995	\$1,040
Cash received from other operating sources	8,297	345	8,642	58,794
Cash payments for employee services and benefits	(2,530,448)	(758,205)	(3,288,653)	0
Cash payments to suppliers for goods and services	(2,783,431)	(232,142)	(3,015,573)	(66,484)
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>3,480,126</u>	<u>68,285</u>	<u>3,548,411</u>	<u>(6,650)</u>
Cash Flows from Capital and Related Financing Activities				
Capital Grants	237,303	0	237,303	0
Principal paid on loans	(2,061,542)	0	(2,061,542)	0
Interest paid on loans	(291,791)	0	(291,791)	0
Payments for capital acquisitions	(210,292)	0	(210,292)	0
<i>Net Cash Used in Capital and Relating Financing Activities</i>	<u>(2,326,322)</u>	<u>0</u>	<u>(2,326,322)</u>	<u>0</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	1,153,804	68,285	1,222,089	(6,650)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>4,532,295</u>	<u>44,710</u>	<u>4,577,005</u>	<u>11,257</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$5,686,099</u></u>	<u><u>\$112,995</u></u>	<u><u>\$5,799,094</u></u>	<u><u>\$4,607</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Operating Income (Loss)	\$2,470,412	\$52,500	\$2,522,912	(\$248,419)
Adjustments:				
Depreciation	1,559,489	82,702	1,642,191	0
(Increase) Decrease in Assets:				
Accounts Receivable	(230,476)	(27,550)	(258,026)	0
Materials and Supplies Inventory	160	0	160	0
Increase (Decrease) in Liabilities:				
Accounts Payable	(1,411)	(25,453)	(26,864)	0
Contracts Payable	(224,643)	7,055	(217,588)	0
Accrued Wages	(2,253)	(1,257)	(3,510)	0
Matured Compensated Absences Payable	65,805	0	65,805	0
Compensated Absences Payable	(91,805)	7,106	(84,699)	0
Intergovernmental Payable	(65,152)	(26,818)	(91,970)	0
Claims Payable	0	0	0	241,769
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u><u>\$3,480,126</u></u>	<u><u>\$68,285</u></u>	<u><u>\$3,548,411</u></u>	<u><u>(\$6,650)</u></u>

See accompanying notes to the basic financial statements

City of Massillon, Ohio

Statement of Fiduciary Assets and Liabilities

Agency Funds

December 31, 2012

Assets	
Equity in Pooled Cash and Cash Equivalents	\$85,589
Cash and Cash Equivalents In Segregated Accounts	58,055
Intergovernmental Receivable	59,753
Property Taxes Receivable	<u>521,568</u>
<i>Total Assets</i>	<u><u>\$724,965</u></u>
Liabilities	
Undistributed Monies	\$89,892
Due to Other Governments	<u>635,073</u>
<i>Total Liabilities</i>	<u><u>\$724,965</u></u>

See accompanying notes to the basic financial statements

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 1 – Description of the City and Reporting Entity

The City of Massillon (the “City”) was first incorporated by the Act of the State Legislature (the Act) as a town in 1838 under the Constitution of 1802. The Act establishing its incorporation was repealed in 1845 and Massillon was without municipal incorporation until March 10, 1853, when, under the provisions of the general act, it was incorporated as a village. Massillon has grown to a city of 32,149 inhabitants, covering 18.709 square miles.

The City has a Mayor-Council form of government with three members of council elected at large and six others elected from separate wards for two-year terms. The Mayor is Chief Executive and Administrative Officer of the City and has a term of four years.

Reporting Entity

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 City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Massillon, this includes police, fire, emergency service, street construction, parks and recreation, wastewater and solid waste utilities, general administrative services and a City council.

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

The City is associated with the Stark Council of Governments, the Stark Area Regional Transit Authority, Stark County Tax Incentive Review Council, and Stark County Regional Planning Commission which are defined as Jointly Governed Organizations and the Local Organized Governments in Cooperation, which is defined as a Joint Venture. These organizations are presented in Notes 10 and 11 to the basic financial statements.

The City’s management believes these financial statements present all activities for which the City is financially accountable.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

Basis of Presentation

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

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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

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

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

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The City’s funds are classified as either governmental, proprietary or 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the City’s major governmental funds:

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

Parks and Recreation Fund The parks and recreation fund accounts and reports for restricted revenue from income tax and charges for services which are used to support recreational programs in the City, including the City’s golf course.

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

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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

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

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

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

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

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

Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

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

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

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred outflows/inflows of resources, 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 year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year end.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and rentals.

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance 2013 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property taxes, income taxes, intergovernmental grants, accrued interest, and charges for services. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

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

Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents". The Massillon Municipal Court agency fund maintains separate accounts and is reported as "cash and cash equivalents in segregated accounts" in the financial statements. The City had investments limited to repurchase agreements, reported at cost, during the year, but no investments at year end.

Interest revenue credited to the general fund during 2012 amounted to \$8,269, all of which is assigned from other City funds.

For presentation on the financial statements, funds included within the City's cash management pool and investments with original maturities of three months or less are considered to be cash equivalents.

Inventory

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money set aside for unclaimed monies.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtreating (i.e. estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

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

<u>Description</u>	<u>Estimated Usful Life</u>
Land Improvements	20 to 40 years
Buildings and Improvements	10 to 40 years
Vehicles	5 to 20 years
Machinery and Equipment	5 to 15 years
Infrastructure	10 to 100 years

The City's infrastructure consists of sanitary sewers, roads, storm sewers and includes infrastructure used in business-type activities acquired prior to December 31, 1980.

Deferred Charge on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on the refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position.

Bond Discounts

On the financial statements, bond discounts are deferred and amortized over the term of the bonds using the straight line method. On the financial statements, bond discounts are presented as a decrease of the face amount of the general obligation bonds payable. On fund financial statements, bond discounts are expended in the year the bonds are issued.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Interfund Balances

On the fund financial statements, receivables and payables resulting from transactions between funds are for services provided or goods received and from short-term interfund loans are classified as “interfund receivables/payables.” Interfund balance amounts are eliminated in the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

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

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

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the highest level formal action (ordinance or resolution, as both are legally binding) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution, as both are legally binding) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by City Council. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

Net Position

Net position represents the difference between all other elements in the statement of net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes includes funds for federal emergency grant programs, police law enforcement, enforcement and education programs, and fire prevention and awareness programs.

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

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Operating Revenues and Expenses

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

Internal Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

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.

Estimates

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

Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time original and final appropriations were passed by Council.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts on the budgetary statements reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

Note 3 – Changes in Accounting Principles and Restatement of Prior Year Fund Balance/Net Position

Changes in Accounting Principles

For 2012, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements," Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53," Statement No. 65, "Items Previously Reported as Assets and Liabilities," and Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62."

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the City's 2012 financial statements.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the City's financial statements.

Restatement of Prior Year Fund Balance/Net Position

During 2012, the City began recording all activity related to the operations of the Legends golf course enterprise fund to the parks and recreation special revenue fund. As a result of the parks and recreation fund collecting the fees and assuming the costs associated with the maintenance of the golf course, it was determined that the City had to restate the remaining assets and liabilities of the Legends golf course enterprise fund to the parks and recreation special revenue fund. The restatement had the following effect on fund balance at December 31, 2011, as previously reported.

The following table summarizes the restatement adjustment for fund balance:

	General	Parks and Recreation	Other Governmental	Total
Fund Balance at December 31, 2011	(\$1,183,067)	\$251,263	\$5,979,036	\$5,047,232
Materials and Supplies Inventory	0	53,082	0	53,082
Accrued Wages	0	(4,837)	0	(4,837)
Intergovernmental Payable	0	(819)	0	(819)
Interfund Payable	0	(195,000)	0	(195,000)
Restated Fund Balance at December 31, 2011	<u>(\$1,183,067)</u>	<u>\$103,689</u>	<u>\$5,979,036</u>	<u>\$4,899,658</u>

Also, in the prior year, construction in progress related to the bar screen and grit screw replacement project was improperly recorded as a governmental asset instead of a business-type asset. This adjustment, along with the adjustment for the Legends golf course fund including capital assets and long-term liabilities, had the following effect on net position:

	Governmental Activities	Business-Type Activities	Total
Net Position December 31, 2011	\$20,044,639	\$19,295,458	\$39,340,097
Construction in Progress	(427,143)	427,143	0
Legends Golf Course	(2,110,756)	2,110,756	0
Restated Net Position at at December 31, 2011	<u>\$17,506,740</u>	<u>\$21,833,357</u>	<u>\$39,340,097</u>

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 4 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Parks and Recreation	Other Governmental Funds	Total
<u>Nonspendable:</u>				
Interfund loans	\$70,000	\$0	\$0	\$70,000
Inventory	82,306	54,272	0	136,578
Unclaimed Monies	20,430	0	0	20,430
<i>Total Nonspendable</i>	<u>172,736</u>	<u>54,272</u>	<u>0</u>	<u>227,008</u>
<u>Restricted for:</u>				
Court Operations	0	0	381,091	381,091
Police Department	0	0	555,962	555,962
Fire and EMS Department	0	0	9,001	9,001
Debt Service Retirement	0	0	1,055,509	1,055,509
Street Maintenance	0	0	491,555	491,555
Economic Development	0	0	2,285,418	2,285,418
Public Health and Welfare	0	0	39,354	39,354
Capital Improvements	0	0	691,335	691,335
Other Purposes	0	0	99,931	99,931
<i>Total Restricted</i>	<u>0</u>	<u>0</u>	<u>5,609,156</u>	<u>5,609,156</u>
<u>Committed to:</u>				
Leisure Time Activites	0	296,590	26,987	323,577
Fines and Forfeitures	0	0	21,405	21,405
Economic Development	0	0	182,249	182,249
Debt Service Retirement	0	0	216,510	216,510
Capital Improvements	0	0	274,365	274,365
Other Purposes	0	0	14,500	14,500
<i>Total Committed</i>	<u>0</u>	<u>296,590</u>	<u>736,016</u>	<u>1,032,606</u>
<u>Assigned to:</u>				
Capital Improvements	0	0	78,255	78,255
Other Purposes	28,531	0	0	28,531
<i>Total Assigned</i>	<u>28,531</u>	<u>0</u>	<u>78,255</u>	<u>106,786</u>
Unassigned (Deficit)	<u>(1,327,271)</u>	<u>0</u>	<u>0</u>	<u>(1,327,271)</u>
Total Fund Balances (Deficit)	<u><u>(\$1,126,004)</u></u>	<u><u>\$350,862</u></u>	<u><u>\$6,423,427</u></u>	<u><u>\$5,648,285</u></u>

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 5 – Accountability and Compliance

Accountability

As of December 31, 2012, the general fund had a deficit fund balance of \$1,126,004 and the internal service fund had a deficit net position balance of \$245,384.

The City had a negative cash balance in the general fund, in the amount of \$950,328, indicating that revenue from other sources were used to pay obligations of this fund, contrary to Ohio Revised Code Section 5705.10.

The City is carefully monitoring the cost of operations and cutting expenditures wherever possible in order to alleviate the general fund deficits.

The deficit in the internal service fund was a result of the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances in other funds, however, this is done when cash is needed rather than when accruals occur.

Compliance

Contrary to section 5705.41(B), budgetary expenditures exceeded appropriation authority by \$1,676,327 in security of persons and property function level in the general fund at December 31, 2012.

Contrary to section 5705.41(B), the City did not properly certify its expenditures.

Note 6 – Budgetary Basis of Accounting

While the City 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 transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund, is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and the GAAP basis are:

1. Revenues and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than restricted, committed, or assigned fund balance (GAAP).
4. Budgetary revenues and expenditures of the parking enforcement, special fund, and enterprise zone funds are reclassified to the general fund for GAAP reporting.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and parks and recreation special revenue fund.

	Net Change in Fund Balance	
	General	Parks and Recreation
GAAP Basis	\$57,063	\$247,173
Adjustment for Revenue Accruals	(293,479)	1,035
Adjustment for Expenditure Accruals	(830,047)	(77,249)
Excess of revenues and other financing sources and over (under) expenditures and other financing uses:		
Parking Enforcement	55,884	0
Special Fund	874	0
Enterprise Zone	17,705	0
Adjustment for Encumbrances	(418,128)	(120,097)
Budget Basis	(\$1,410,128)	\$50,862

Note 7 – Deposits and Investments

The City has elected to follow the provisions of State statute. State statutes classify monies held by the City into three categories.

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

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

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

Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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;

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

2. Bonds, notes, debentures, or any other obligation or security 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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio);
8. Commercial paper and banker's acceptances if training requirements have been met.

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk. Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$3,006,603 of the City's bank balance of \$8,174,897 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 8 – Receivables

Receivables at December 31, 2012, consisted primarily of municipal income taxes, property and other taxes, payments in lieu of taxes, accounts, interest, loans, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are deemed collectible in full.

All receivables except for delinquent property taxes are expected to be collected in one year. Property taxes, although ultimately collectible, include some portions of delinquencies that will not be collected within one year.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of 2011 taxes.

2012 real property taxes were levied after October 1, 2012, on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

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 later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes which became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2012, was \$4.70 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2012 property tax receipts were based are as follows:

Category	Assessed Values
Real Estate	
Residential/Agricultural	\$358,519,920
Other Real Estate	162,153,950
Tangible Personal Property	
Public Utility	<u>22,330,440</u>
Total	<u><u>\$543,004,310</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2012, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2012 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Municipal Income Taxes

The City levies and collects an income tax of 1.8 percent on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated taxes at least quarterly and to file a final return annually. Income tax revenues are distributed based on Council's discretion and can change during the year. Currently the tax revenues are distributed between the general fund, 83.13 percent, income tax capital improvements fund, 0.21 percent, and parks and recreation fund, 16.66 percent. The parks and recreation fund also allocates income tax revenues to the parks and recreation debt service bond retirement and capital improvement funds as needed.

Intergovernmental Receivable

A summary of the governmental activities' principal item of intergovernmental receivables follows:

Governmental Activities	
Gasoline Tax	\$671,017
Fire Department Equipment Grant	395,418
Ohio Public Works Commission Grant	282,061
Local Government	274,742
Homestead and Rollback	189,611
Estate Tax	185,324
Motor Vehicle License Tax	112,348
Other	47,606
Total	<u>\$2,158,127</u>
Business-Type Activity	
Waste Water	<u>\$339,152</u>

Payments in Lieu of Taxes

According to State Law, the City has established several tax incremental financing districts within the City under which the City has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owners have agreed to make payments to the City to help pay the costs of the infrastructure improvements. The amount of those payments generally reflects all or a portion of the property taxes which the property owners would have paid if the property had not been declared exempt. The property owners' contractual promise to make these payments in lieu of taxes generally continues until the costs of the improvement have been paid or the agreement expires, whichever comes first. Future development by these owners or others may result in subsequent agreements to make payments in lieu of taxes and may therefore spread the costs of the improvements to a larger number of property owners.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Note 9 – Risk Management

The City is exposed to various risks of property and casualty losses, and injuries to employees.

The City insures against injuries to employees through the Ohio Bureau of Workers' Compensation.

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

The Pool uses reinsurance and excess risk-sharing arrangements to reduce its exposure to loss. These agreements permit recovery of a portion of its claims from reinsurers and a risk-sharing pool; however, they do not discharge the Pool's primary liability for such payments. The Pool is a member of American Public Entity Excess Pool ("APEEP"), which is also administered by ARPCO. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, the Pool retains insured risks up to an amount specified in the contracts. (At December 31, 2012 the Pool retained \$350,000 for casualty claims and \$150,000 for property claims). The Board of Directors and ARPCO periodically review the financial strength of the Pool and other market conditions to determine the appropriate level of risk the Pool will retain.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from last year.

Financial Position

The Pool's Financial Statements (audited by other accountants) conform to generally accepted accounting principles, and report the following assets, liabilities and net position at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Assets	\$34,389,569	\$33,362,404
Liabilities	<u>14,208,353</u>	<u>14,187,273</u>
Net Position	<u>\$20,181,216</u>	<u>\$19,175,131</u>

The casualty coverage assets and net position above include approximately \$12.14 million and \$12.4 million of unpaid claims to be billed to approximately 455 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The City's share of these unpaid claims collectible in future years is approximately \$409,008. This payable includes subsequent year's contributions due if the City terminates participation, as described in the last paragraph below.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership. The contributions for the past three years are as follows:

Year	Contributions to PEP
2012	\$383,234
2011	355,086
2010	360,526

After completing one year of membership, members may withdraw on each anniversary date of the date they joined PEP, provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligations to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to withdrawal.

Settled claims have not exceeded this coverage in any of the past three years and there has been no significant reduction in commercial coverage in any of the past three years.

The City uses an internal service fund to record and report its self-funded insurance program for vision and dental coverage for employees. The claims liability of \$249,991 reported in the fund at December 31, 2012, was estimated by third party administrators and is based on the requirements of GASB Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The City purchases stop-loss coverage of \$35,000 per employee. Changes in the fund's claims liability during 2011 and 2012 were:

Changes in the internal services funds' claims liability amounts in the last two years follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2011	\$1,026	\$42,305	\$35,109	\$8,222
2012	8,222	308,253	66,484	249,991

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Note 10 – Jointly Governed Organizations

Stark Council of Governments

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

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

Stark Area Regional Transit Authority

The City participates in the Stark Area Regional Transit Authority (Authority), which is a jointly governed organization between Stark County and the cities of Massillon, Canton and Alliance. A nine member Board of Trustees (the Board) oversees the operation of the Authority. The City appoints one of the nine members. Each member's control over the operation of the Authority is limited to its representation on the Board. The Board exercises total authority for the day-to-day operations of the Authority, which include budgeting, appropriating, contracting, and designating management. The City contributed \$975 during the year and has no financial responsibility for any of the Authority's liabilities. Complete financial statements may be obtained from the Stark Area Regional Transit Authority, 1600 Gateway Boulevard, SE, Canton, Ohio.

Stark County Tax Incentive Review Council

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

City of Massillon, Ohio
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For the Year Ended December 31, 2012

Stark County Regional Planning Commission

The City participates in the Stark County Regional Planning Commission (the Commission) which is a statutorily created political subdivision of the State. The Commission is jointly governed among Stark County, other cities, villages and townships. Of the forty-eight member board, the City appoints two members. The degree of control exercised by any participating government is limited to its representation on the board. The principal aim of the Commission is to provide comprehensive planning, both long and short range, dealing with the economic and physical environment of Stark County. The board exercises total authority for the day-to-day operations of the Commission. These include budgeting, appropriating, contracting, and designating management. The City has no financial responsibility for any of the Commission's liabilities. In 2012, the City contributed \$19,500 to the Commission, which represented less than 1 percent of total contributions. Complete financial statements may be obtained from the Stark County Regional Planning Commission, Stark County, Ohio.

Note 11 – Joint Venture

The City participates in the Local Organized Governments in Cooperation (LOGIC), a statutorily created political subdivision of the State formed in 1986 to provide safety dispatching services. LOGIC is a joint venture among the City, Jackson Township, City of Canal Fulton, and Hills and Dales Village, with each participant providing one representative. Each representative has a membership share based on the percentage of contractual financial contributions to the total funding, and each participant is entitled to vote its percentage share. The Board has total authority over the operation of LOGIC, including budgeting, appropriating, contracting, and designating management. Continued existence of LOGIC is dependent on the City's continued participation. LOGIC does not provide specific financial benefits or impose specific financial burdens on the City. During 2012, the City made contributions of \$480,715, but does not have an equity interest in LOGIC. Financial statements of LOGIC may be obtained from Local Organized Governments in Cooperation, Canton, Ohio.

Note 12 – Contingencies

Grants

The City has received Federal and State grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City's management believes such disallowances, if any, will be immaterial.

Litigation

Several claims and lawsuits are pending against the City. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material adverse effect on the overall financial position of the City at December 31, 2012.

City of Massillon, Ohio
Notes to the Basic Financial Statements
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Note 13 – Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2012, was as follows:

	Restated Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
Governmental Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$10,888,703	\$66,100	(\$6,500)	\$10,948,303
Construction in Progress	70,015	537,154	0	607,169
<i>Total Capital Assets, not being depreciated</i>	<u>10,958,718</u>	<u>603,254</u>	<u>(6,500)</u>	<u>11,555,472</u>
<i>Capital Assets, being depreciated</i>				
Land Improvements	5,455,378	0	0	5,455,378
Buildings and Improvements	15,500,268	0	0	15,500,268
Vehicles	4,751,453	358,920	(34,450)	5,075,923
Machinery and Equipment	4,114,464	11,678	0	4,126,142
Infrastructure	25,116,648	472,081	0	25,588,729
<i>Total Capital Assets, being depreciated</i>	<u>54,938,211</u>	<u>842,679</u>	<u>(34,450)</u>	<u>55,746,440</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(2,881,856)	(179,301)	0	(3,061,157)
Buildings and Improvements	(7,096,880)	(366,454)	0	(7,463,334)
Vehicles	(3,934,549)	(194,633)	33,303	(4,095,879)
Machinery and Equipment	(3,242,591)	(184,897)	0	(3,427,488)
Infrastructure	(10,266,089)	(949,434)	0	(11,215,523)
<i>Total Accumulated Depreciation</i>	<u>(27,421,965)</u>	<u>(1,874,719) *</u>	<u>33,303</u>	<u>(29,263,381)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>27,516,246</u>	<u>(1,032,040)</u>	<u>(1,147)</u>	<u>26,483,059</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$38,474,964</u>	<u>(\$428,786)</u>	<u>(\$7,647)</u>	<u>\$38,038,531</u>

* Depreciation expense was charged to governmental activities as follows:

General Government	\$140,769
Security of Persons and Property	178,698
Public Health and Welfare	567
Leisure Time Activities	644,583
Transportation	910,102
Total Depreciation Expense	<u><u>\$1,874,719</u></u>

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Capital asset activity for business-type activities for the year ended December 31, 2012, was as follows:

	Restated Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
Business-Type Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$59,400	\$0	\$0	\$59,400
Construction in Progress	464,916	99,472	(464,916)	99,472
<i>Total Capital Assets, not being depreciated</i>	<u>524,316</u>	<u>99,472</u>	<u>(464,916)</u>	<u>158,872</u>
<i>Capital Assets, being depreciated</i>				
Buildings and Improvements	7,397,746	0	0	7,397,746
Vehicles	1,636,245	21,013	0	1,657,258
Machinery and Equipment	1,398,350	554,723	0	1,953,073
Infrastructure	56,395,409	0	0	56,395,409
<i>Total Capital Assets, being depreciated</i>	<u>66,827,750</u>	<u>575,736</u>	<u>0</u>	<u>67,403,486</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(6,132,358)	(174,344)	0	(6,306,702)
Vehicles	(1,071,528)	(119,930)	0	(1,191,458)
Machinery and Equipment	(1,218,939)	(75,070)	0	(1,294,009)
Infrastructure	(15,204,175)	(1,272,847)	0	(16,477,022)
<i>Total Accumulated Depreciation</i>	<u>(23,627,000)</u>	<u>(1,642,191)</u>	<u>0</u>	<u>(25,269,191)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>43,200,750</u>	<u>(1,066,455)</u>	<u>0</u>	<u>42,134,295</u>
<i>Business-Type Activities Capital Assets, Net</i>	<u>\$43,725,066</u>	<u>(\$966,983)</u>	<u>(\$464,916)</u>	<u>\$42,293,167</u>

Note 14 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System (OPERS)

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 12 percent for law enforcement and public safety members. For the year ended December 31, 2012, members in state and local divisions contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.5 percent and 12.1 percent, respectively. Effective January 1, 2013, the member contribution rates for public safety and law enforcement increased to 12 percent and 12.6 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2012, member and employer contribution rates were consistent across all three plans.

The City's 2012 contribution rate was 14 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 18.1 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$788,066, \$832,439, and \$732,387, respectively. For 2012, 78.80 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010. Contributions to the Member-Directed Plan for 2012 were \$30,259 made by the City and \$21,614 made by plan members.

Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code requires plan members to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$355,930 and

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\$507,078 for the year ended December 31, 2012, \$383,329 and \$491,689 for the year ended December 31, 2011, and \$357,746 and \$469,766 for the year ended December 31, 2010, respectively. For 2012, 33.68 percent has been contributed for police and 26.84 percent has been contributed for firefighters with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire fighters in 1967. As of December 31, 2012, the unfunded liability of the City was \$1,337,035 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary.

Note 15 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14 percent of covered payroll, and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

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Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$315,226, \$332,976, and \$417,486, respectively. For 2012, 78.80 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

Changes to the health care were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan.

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OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$188,434 and \$198,422 for the year ended December 31, 2012, \$202,939 and \$192,400 for the year ended December 31, 2011, and \$189,395 and \$183,822 for the year ended December 31, 2010. For 2012, 33.68 percent has been contributed for police and 26.84 percent has been contributed for firefighters with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

Note 16 – Long-Term Obligations

Original issue amounts and interest rates of the City's debt issues were as follows:

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
Governmental Activities:			
Senior Center Bonds - 1994	8.00-8.50%	\$1,300,000	December 1, 2014
Park and Recreation Bonds - 2002	5.20	12,340,000	December 1, 2031
Lincoln Center Phase II Refunding Bonds - 2002	1.50-4.00	3,065,000	December 1, 2014
Golf Course Construction Refunding Bonds - 2002	1.5-7.16	7,281,233	December 1, 2031
Marketplace Infrastructure TIF Bonds - 2004	1.5-4.2	1,774,999	December 1, 2023
Lincoln Center Phase III Bonds - 2007	4.09	2,569,998	December 1, 2027
Various Purpose Improvement Refunding Bonds - 2012A	2.00-4.125	7,580,000	December 1, 2026
Various Purpose Improvement Refunding Bonds - 2012B	6.00	925,000	December 1, 2024
Ohio Public Works Commission Loan - 2006	0.00	492,629	July 1, 2026
Housing and Urban Development Section 108 Loan - 1999	6.75	2,250,000	August 1, 2019
Business-Type Activities:			
Water Pollution Control Loan Fothergill - 1999	3.81	1,407,776	July 1, 2020
WWTP Upgrade OWDA Phase I Loan - 2002	1.26	6,131,478	Not Finalized
WWTP Upgrade OWDA Phase II Loan - 2002	1.26	36,018,868	July 1, 2024

City of Massillon, Ohio
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The changes in long-term obligations during the year were as follows:

	Restated Balance 12/31/2011	Issued	Retired	Balance 12/31/2012	Amounts Due In One Year
Governmental Activities:					
<u>General Obligation Bonds</u>					
Senior Center Bonds - 1994	\$890,000	\$0	(\$835,000)	\$55,000	\$0
Park and Recreation Bonds - 2002	11,230,000	0	(7,275,000)	3,955,000	0
Lincoln Center Phase II Refunding Bonds - 2002	880,000	0	(280,000)	600,000	295,000
Golf Course Construction Refunding Bonds - 2002					
Serial Bonds	4,750,000	0	0	4,750,000	0
Unamortized Discount	(39,161)	0	3,363	(35,798)	0
Capital Appreciation Bonds	1,046,600	0	(170,583)	876,017	160,593
Accretion on Bonds	289,940	28,910	0	318,850	0
Marketplace Infrastructure TIF Bonds - 2004					
Serial Bonds	980,000	0	(95,000)	885,000	0
Capital Appreciation Bonds	109,999	0	0	109,999	39,962
Accretion on Bonds	108,985	20,310	0	129,295	0
Lincoln Center Phase III Bonds - 2007					
Serial Bonds	510,000	0	(120,000)	390,000	125,000
Term Bonds	1,455,000	0	0	1,455,000	0
Capital Appreciation Bonds	179,998	0	0	179,998	0
Accretion on Bonds	72,347	21,872	0	94,219	0
Various Purpose Improvement Refunding Bonds - 2012A					
Serial Bonds	0	7,580,000	(175,000)	7,405,000	380,000
Unamortized Discount	0	(72,265)	4,818	(67,447)	0
Various Purpose Improvement Refunding Bonds - 2012B	0	925,000	0	925,000	0
Total General Obligation Bonds	22,463,708	8,503,827	(8,942,402)	22,025,133	1,000,555
<u>Loans Payable</u>					
OPWC Loan	358,235	0	(24,632)	333,603	24,632
HUD Section 108	1,650,000	0	(80,000)	1,570,000	85,000
Total Loans Payable	2,008,235	0	(104,632)	1,903,603	109,632
<u>Other Long-Term Obligations</u>					
Police and Fireman's Pension Liability	1,372,084	0	(35,049)	1,337,035	36,553
Compensated Absences	3,302,354	145,091	(531,405)	2,916,040	226,954
Judgement Payable	630,000	0	(70,000)	560,000	70,000
Capital Leases Payable	40,723	0	(40,723)	0	0
Total Other Long-Term Obligations	5,345,161	145,091	(677,177)	4,813,075	333,507
Total Governmental Activities	\$29,817,104	\$8,648,918	(\$9,724,211)	\$28,741,811	\$1,443,694

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	Restated Balance 12/31/2011	Issued	Retired	Balance 12/31/2012	Amounts Due In One Year
Business-Type Activities:					
<u>OWDA Loans Payable</u>					
WPCL Fothergill Loan - 1999	\$729,061	\$0	(\$74,139)	\$654,922	\$76,990
WWTP Upgrade OWDA Phase I Loan - 2002	3,740,171	0	(232,938)	3,507,233	327,713
WWTP Upgrade OWDA Phase II Loan - 2002	23,649,396	0	(1,754,465)	21,894,931	1,777,254
Total OWDA Loans Payable	28,118,628	0	(2,061,542)	26,057,086	2,181,957
<u>Other Long-Term Obligations</u>					
Compensated Absences	393,603	0	(84,699)	308,904	7,592
Total Business-Type Activities	\$28,512,231	\$0	(\$2,146,241)	\$26,365,990	\$2,189,549

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from voted and unvoted general property taxes. Property tax monies will be received in and the debt will be repaid from the bond retirement funds.

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

On November 1, 2002, the City issued \$920,000 and \$7,281,233 in general obligation bonds with an average interest rate of 2 percent and 4.3 percent to advance refund \$910,000 and \$2,510,000 of outstanding wastewater refunding series bonds and golf course construction refunding series bonds with an average interest rate of 6.94 percent and 5.2 percent, respectively. The net proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide future debt service payments on the wastewater refunding series bonds and the golf course refunding series bonds. As a result, the wastewater refunding series bonds and golf course refunding series bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The golf course construction refunding capital appreciation bonds were originally sold at a discount of \$353,767, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2011 through 2016. The maturity amount of outstanding capital appreciation bonds at December 31, 2012 is \$1,315,000. The accretion recorded for 2012 was \$28,910, for a total outstanding bond liability of \$1,194,867.

The Marketplace Infrastructure TIF capital appreciation bonds were originally sold at a discount of \$175,001, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2013 through 2015. The maturity amount of outstanding capital appreciation bonds at December 31, 2012 is \$285,000. The accretion recorded for 2012 was \$20,310, for a total outstanding bond liability of \$239,294.

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Lincoln Center Phase III Bonds

The capital appreciation bonds were originally sold at a discount of \$235,002, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2016 through 2018. The maturity amount of outstanding capital appreciation bonds at December 31, 2012 is \$415,000. The accretion recorded for 2012 was \$21,872, for a total outstanding bond liability of \$274,217.

Optional Redemption The Current Interest Bonds Maturing after December 1, 2017 are subject to redemption at the option of the City, on or after December 1, 2017, in whole or in part on any date, in the integral multiples of \$5,000, at a redemption price equal to 100 percent of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

Redemption Dates (Dates Inclusive)	Redemption Prices
December 1, 2017	100%

Mandatory Sinking Fund Redemption The current interest term bonds maturing on December 1, 2021 are subject to mandatory sinking fund redemption price of 100 percent of the principal amounts to be redeemed as accrued interest to the date of redemption (with the balance of \$150,000 to be paid at the stated maturity in December 1, 2021):

Year	Principal Amount
2019	\$135,000
2020	145,000

Mandatory Sinking Fund Redemption The current interest term bonds maturing on December 1, 2024 are subject to mandatory sinking fund redemption price of 100 percent of the principal amounts to be redeemed as accrued interest to the date of redemption (with the balance of \$165,000 to be paid at the stated maturity in December 1, 2024):

Year	Principal Amount
2022	\$155,000
2023	160,000

Mandatory Sinking Fund Redemption The current interest term bonds maturing on December 1, 2027 are subject to mandatory sinking fund redemption price of 100 percent of the principal amounts to be redeemed as accrued interest to the date of redemption (with the balance of \$190,000 to be paid at the stated maturity in December 1, 2027):

Year	Principal Amount
2025	\$175,000
2026	180,000

In 2012, the City issued various purpose refunding bonds in the amount of \$7,580,000, to refund the parks and recreation serial bonds. The bonds were issued with interest rates varying from 2 to 4.125 percent. The bonds were issued for a 15 year period with a final maturity on December 1, 2026. The bonds will be retired through the bond retirement debt service fund.

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In 2012, the City issued various purpose refunding bonds in the amount of \$925,000, to refund the senior center serial bonds. The bonds were issued at an interest rate of 6 percent. The bonds were issued for a 10 year period with a final maturity on December 1, 2024. The bonds will be retired through the bond retirement debt service fund.

	Outstanding at December 31, 2011	Amount Refunded	Principal Payment on Non-Refunded Portion	Outstanding at December 31, 2012
2002 Parks and Recreation	\$11,230,000	(\$7,010,000)	(\$265,000)	\$3,955,000
1994 Senior Center	890,000	(560,000)	(275,000)	55,000
Total Amount Refunded	<u>\$12,120,000</u>	<u>(\$7,570,000)</u>	<u>(\$540,000)</u>	<u>\$4,010,000</u>

The bonds were sold at a discount of \$72,265. Proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the various purpose refunding bonds. As a result, \$7,570,000 of these bonds was considered defeased and the liability for the refunded bonds has been removed from the City's financial statements.

Although the refunding will result in the recognition of an accounting loss of \$674,540, the City in effect decreased its aggregated debt service payments by \$110,629 and obtained an economic gain (difference between the present value of the old and new debt service payments) of \$318,738.

The OPWC loans are comprised of two separate, zero percent interest loans. The purpose of these loans are for the Federal Avenue pump station and the arena district rehabilitation. These loans will be repaid over a period of 20 years by user fees.

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

The City also entered into an agreement with the Ohio Water Development Authority (OWDA) to upgrade and expand the City's wastewater treatment facility. The agreement provides loan proceeds totaling \$42.9 million which will be received by the City and used to fund the projects. The debt proceeds will be repaid by wastewater service charges semi-annually over 20 years at 1.26 percent per annum. Under the terms of the agreement, the OWDA will reimburse or directly pay the construction costs of the approved projects. The OWDA will capitalize administrative costs and construction interest and add them to the total of each loan. As of December 31, 2012, the City has an outstanding balance of \$26,057,086.

A line of credit has been established with the Ohio Water Development Authority in the amount of \$6,750,000 for the WWTP Upgrade Phase I loan; however, since this loan is not finalized, the repayment schedule is not included in the schedule of debt service requirements. Until a final repayment schedule is available, the City is paying based on estimates.

The City has pledged future revenues, net of operating expenses, to repay the WPCL Fothergill loan and WWTP Upgrade Phase II Loan in the wastewater fund. The debt is payable solely from net revenues and are payable through 2020. Annual principal and interest payments on the debt issues are expected to

City of Massillon, Ohio
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require 6 percent of net revenues. The total principal and interest remaining to be paid on the debt is \$24,403,763. Principal and interest paid from the current year and net revenues available were \$2,353,333 and \$4,029,901, respectively.

Compensated absences will be paid from the general fund and the street construction maintenance and repair, state highway, community development, WIC program, and parks and recreation special revenue funds, wastewater treatment, and solid waste enterprise funds which are the funds from which the employees' salaries are paid. The capital lease payable will be paid from the income tax capital improvement capital projects fund. The police and fire fireman's pension liability loan will be paid from the police and fire pension special revenue funds.

On December 7, 2009, the City of Massillon authorized the Director of Public Service and Safety to enter into a settlement agreement with the Stark County Commissioners resolving all claims resulting from the issue of the costs associated with the housing of prisoners charged with violations of Massillon Municipal ordinances at the Stark County jail from January 1, 2003 to the present. The City is paying the Stark County Commissioners \$700,000 in 20 semi-annual consecutive installments of \$35,000, beginning January 1, 2011.

The City's overall debt margin was \$35,677,027 and the unvoted legal debt margin was \$7,189,776 at December 31, 2012. Principal and interest requirements to retire the long-term obligations outstanding at December 31, 2012, are as follows:

	Governmental Activities					
	General Obligation Bonds					
	Capital Appreciation		Serial Bonds		Term Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$200,555	\$195,115	\$800,000	\$841,511	\$0	\$23,720
2014	284,457	111,213	900,000	818,013	0	23,721
2015	220,479	115,191	645,000	798,283	0	0
2016	344,072	164,809	650,000	745,259	0	0
2017	60,644	138,237	1,025,000	711,782	0	0
2018-2022	55,807	143,075	5,095,000	2,939,950	585,000	201,724
2023-2027	0	0	5,085,000	1,858,507	870,000	110,144
2028-2031	0	0	4,765,000	600,483	0	0
Totals	<u>\$1,166,014</u>	<u>\$867,640</u>	<u>\$18,965,000</u>	<u>\$9,313,788</u>	<u>\$1,455,000</u>	<u>\$359,309</u>

	Governmental Activities		
	HUD Section 108 Loan		OPWC Loan
	Principal	Interest	Principal
2013	\$85,000	\$46,432	\$24,632
2014	90,000	45,293	24,632
2015	95,000	43,673	24,632
2016	105,000	41,583	24,632
2017	110,000	38,790	24,632
2018-2022	1,085,000	67,434	123,160
2023-2026	0	0	87,283
Totals	<u>\$1,570,000</u>	<u>\$283,205</u>	<u>\$333,603</u>

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	Business-Type Activities	
	OWDA Loan	
	Water Pollution Control Loans	
	Principal	Interest
2013	\$1,854,244	\$303,027
2014	1,880,306	276,968
2015	1,906,791	250,482
2016	1,933,715	223,557
2017	1,961,086	196,187
2018-2022	9,969,409	563,911
2023-2024	3,044,302	39,778
Totals	\$22,549,853	\$1,853,910

Note 17 – Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn two to six weeks of vacation per year, depending upon length of service. Vacation leave is not accrued, because the City has a “use it or lose it” policy. All employees must use their vacation leave by the end of the year or it is forfeited.

Per the City’s negotiated agreements, employees with more than 5 years of service are entitled to 40 percent of their sick balance at termination. Employees with more than 20 years of service are entitled to 107 days (or 1,360 hours) of sick leave at 100 percent and then 40 percent of hours over the 1,360 hour threshold.

Note 18 – Interfund Transfers and Balances

Interfund Transfers

Interfund transfers for the year ended December 31, 2012, consisted of the following:

Transfer To	Transfer From
	General
Fire Pension	\$596,914
Police Pension	513,808
OPWC Loan Payment	24,631
Bond Retirement Lincoln Center	511,776
Bond Retirement Senior Housing	2,208
Total	\$1,649,337

During the year ended December 31, 2012, the City made transfers totaling \$1,649,337 from the general fund to the police and fire pension funds and three debt service funds. These transfers represent amounts paying the employer’s share of police and fire pensions and amounts for debt payments.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Interfund Balances

Interfund balances at December 31, 2012 consisted of the following

	Interfund Balances	
	December 31, 2012	
	Receivables	Payables
<i>Major Funds:</i>		
General	\$70,000	\$950,328
Parks and Recreation	476,196	175,000
Total Major Funds	546,196	1,125,328
<i>Nonmajor Funds:</i>		
Income Tax Capital Improvements	105,000	0
Marketplace Infrastructure	474,132	0
Total Nonmajor Funds	579,132	0
Total All Funds	\$1,125,328	\$1,125,328

During 2012, the general fund, parks and recreation fund and other governmental funds had interfund receivables in the amount of \$70,000, \$476,196 and \$579,132, respectively. These remaining balances were originally made to support operations in various funds. All are anticipated to be repaid within one year.

Note 19 – Significant Commitments

Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next year or soon thereafter were as follows:

General	\$418,128
Parks and Recreation	120,097
Nonmajor funds	1,912,814
Total	\$2,451,039

Note 20 – Subsequent Events

On January 1, 2013, the City transferred seven remaining Solid Waste Department personnel due to the outsourcing and sale of the City's solid waste enterprise. Also, on March 29, 2013, the City laid off seven employees from the newly organized Street and Highways Division of the Public Works Department due to a lack of funds.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

The Auditor of State's office placed the City in fiscal emergency on October 8, 2013, in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a financial planning and supervision commission. The Commission is comprised of a representative of the Office of Budget and Management, a representative of the Treasurer of State, the city mayor, the president of city council, and three individuals appointed by the Governor who are residents of the City and meet certain criteria. In accordance with Section 118.06 of the Ohio Revised Code, the City is required to submit to the Commission a financial recovery plan for the City which outlines the measures to be taken to eliminate the fiscal emergency conditions. A city is placed into fiscal emergency when any one of six conditions is present. For the City of Massillon, one of the six conditions were present at the date of the Auditor of State's determination. The condition present in the City was deficit fund balances. Under Section 118.03(A)(5) of the Revised code, the aggregate sum of all deficit funds at the end of the preceding fiscal year, less any transferable balance in the general fund and in any special revenue fund that exceed one-sixth of the general fund budget and the receipts of the deficit funds is a fiscal emergency condition. As of December 31, 2012, the City had deficit fund balances in the following funds: forfeited fund, income tax – capital improvements fund, and the OPWC projects fund. The Auditor of State's calculation determined the total unprovided portion of aggregate deficit funds was \$518,182 for the year ended December 31, 2012.

**CITY OF MASSILLON
STARK COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Health and the City of Canton</i>			
Special Supplemental Nutrition for Women, Infants and Children	01-7620-FCL389	10.557	<u>\$140,298</u>
Total U.S. Department of Agriculture			<u>140,298</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Direct</i>			
Community Development Block Grants/Entitlement Grants	B-09-MC-39-0029	14.218	688,627
<i>Passed Through Ohio Development Services Agency</i>			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	A-Z-08-290-1	14.228	265,315
<i>Passed Through Stark County HOME Consortium</i>			
HOME Investment Partnerships Program	M-04-DC-39-0204	14.239	<u>55,872</u>
Total U.S. Department of Housing and Urban Development			<u>1,009,814</u>
U.S. DEPARTMENT OF JUSTICE			
<i>Direct</i>			
ARRA - Edward Byrne Memorial Justice Grant (JAG) Program/Grants to Units of Local Government	2011-JG-D01-6935	16.804	20,333
<i>Passed Through Ohio Department of Public Safety</i>			
ARRA - Violence Against Women Formula Grants	2011WFVA2-8225	16.588	<u>37,619</u>
Total U.S. Department of Justice			<u>57,952</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>Direct</i>			
Assistance to Firefighters Grant	EMW-2011-FO-05487	97.044	327,920
Staffing for Adequate Fire and Emergency Rescue	Not Available	97.083	<u>114,335</u>
Total U.S. Department of Homeland Security			<u>442,255</u>
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning and Construction	Not Available	20.205	<u>349,840</u>
Total U.S. Department of Transportation			<u>349,840</u>
Total			<u><u>\$2,000,159</u></u>

The accompanying notes are an integral part of this schedule.

**CITY OF MASSILLON
STARK COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the City of Massillon's (the City's) federal award programs' disbursements. The schedule has been prepared on the cash basis of accounting

NOTE B - SUBRECIPIENTS

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

As a subrecipient, the City has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

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

The City has a revolving loan fund (RLF) program to provide low-interest loans to businesses to create jobs for low to moderate income persons and also to lend money to eligible persons to rehabilitate homes, demolition, elderly care and domestic violence recovery. The federal Department of Housing and Urban Development (HUD) grants money for these loans to the City. The Schedule reports loans made and administrative costs as disbursements on the Schedule. Subsequent loans are subject to the same compliance requirements imposed by HUD as the initial loans.

These loans are collateralized by a deed of trust of mortgage in favor of the City upon all land, buildings, fixtures, equipment and other assets of the applicant comprising the project and by the applicant's personal guarantee of repayment, unconditionally and irrevocably guaranteeing repayment of the revolving loan funds of the City.

Activity in the CDBG revolving loan fund during 2012 is as follows:

Beginning loans receivable balance as of January 1, 2012	\$3,312,407
Loans made	0
Loan principal repaid	5,192
Ending loans receivable balance as of December 31, 2012	<u>\$3,307,215</u>
Cash balance on hand in the revolving loan fund as of December 31, 2012	\$0

The table above reports gross loans receivable

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • Auditor of State

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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Massillon, Stark County, (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 11, 2013 wherein we noted the City restated capital assets and reclassified a business type fund as a governmental type fund. We also noted Local Government Service is conducting a financial analysis.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Government's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2012-001 through 2012-003.

Entity's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dave Yost
Auditor of State
Columbus, Ohio

October 11, 2013



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Massillon's (the City) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the City of Massillon's major federal programs for the year ended December 31, 2012. The *Summary of Audit Results* in the accompanying schedule of findings and questioned costs identifies the City's major federal programs.

Management's Responsibility

The City's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the City's compliance for each of the City's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the City's major programs. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on Community Development Block Grant/Entitlement Grant and Assistance to Firefighters Grant

As described in Findings 2012-005 and 2012-006 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2012-005	14.218	Community Development Block Grant/Entitlement Grant	Allowable costs/cost principals
2012-006	97.044	Assistance to Firefighters Grant	Procurement, Suspension and Debarment

Compliance with these requirements is necessary, in our opinion, for the City to comply with the requirements applicable to these programs.

Qualified Opinion on Community Development Block Grant/Entitlement Grant and Assistance to Firefighters Grant

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Community Development Block Grant/Entitlement Grants and Assistance to Firefighters Grant*, the City of Massillon complied, in all material respects, with the requirements referred to above that could directly and materially affect its *Community Development Block Grant/Entitlement Grant and Assistance to Firefighters Grant* for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings and questioned costs as items 2012-004, 2012-007 and 2012-008. These findings did not require us to modify our compliance opinion on each major federal program.

The City's responses to our noncompliance finding are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

Report on Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the City's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-005 and 2012-006 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-004, 2012-007 and 2012-008 to be significant deficiencies.

The City's responses to the internal control over compliance findings we identified are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

Dave Yost
Auditor of State
Columbus, Ohio

October 11, 2013

CITY OF MASSILLON
STARK COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2012

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified 14.218 Qualified 97.044
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Community Development Block Grants/Entitlement Grants CFDA # 14.218; Assistance to Firefighters Grant CFDA #97.044
(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**

ORC 5705.41(D)

<i>Finding Number</i>	2012-001
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NONCOMPLIANCE

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision’s fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard above that a fiscal officer’s certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: “then and now” certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. “Then and Now” Certificate – If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the entity can authorize the drawing of a warrant for the payment of the amount due. The entity has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the entity.

2. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The entity may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During fiscal year 2012, 11 out of the 53 (20.75%) disbursements tested were not properly certified as available for appropriation prior to incurring the obligation. In addition, the City did not establish by resolution or ordinance a blanket certificate limit until January 22, 2013.

<i>Finding Number</i>	2012-001 (Continued)
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We recommend the City certify purchases to which section 5705.41 (D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The City Auditor should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41 (D) are satisfied. The City Auditor should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation. In addition, City Council should establish a blanket limit by resolution or ordinance.

Negative Fund Balances

<i>Finding Number</i>	2012-002
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NONCOMPLIANCE

Ohio Revised Code Section 5705.10 requires monies paid into any fund be used only for the purposes for which such fund is established. At the end of December 2012, the City had negative cash fund balance in the General Fund (\$989,762).

The City should monitor fund activity to help prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

Official's Response: we were aware of the situation and have been working with Administration and City Council to increase our revenue stream. A tax levy failed in May of 2013 and our council would not consider an Income Tax Credit or Street Lighting Assessment that would have helped tremendously. We have been pushed into fiscal emergency and hope that this will help us get back on track.

ORC 5705.41(B)

<i>Finding Number</i>	2012-003
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NONCOMPLIANCE

Ohio Rev. Code Section 5705.41(B) requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

At December 31, 2012, expenditures plus outstanding encumbrances exceeded appropriation in the General Fund by \$1,384,955 which is caused by the excess amount within the security of persons and property function of (\$1,676,327).

The City Auditor should frequently compare actual expenditures plus outstanding encumbrances to appropriations to avoid over spending.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

CDBG Spending Caps

Finding Number	2012-004
CFDA Title and Number	Community Development Block Grants/ Entitlement Grants CFDA # 14,218
Federal Award Number / Year	2012
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	NA

QUESTIONED COST/MATERIAL NONCOMPLIANCE – MATCHING, LEVEL OF EFFORT, EARMARKING/SIGNIFICANT DEFICIENCY

24 Code of Federal Regulation section 570.201(e)(1) provides the amount of Community Development Block Grant (CDBG) funds used for public services shall not exceed 15 percent of each grant, except that for entitlement grants made under subpart D of this part, the amount shall not exceed 15 percent of the grant plus 15 percent of program income, as defined in §570.500(a). For entitlement grants under subpart D of this part, compliance is based on limiting the amount of CDBG funds obligated for public service activities in each program year to an amount no greater than 15 percent of the entitlement grant made for that program year plus 15 percent of the program income received during the grantee's immediately preceding program year.

The City's CDBG Financial Summary Report (PR26) documents that the public service cap of 15% was exceeded by 1.90%, or \$12,856. As a result, \$12,856 are considered federal questioned costs.

The City should monitor spending by activity to avoid maximum amounts or percentages of the program's funding from being exceeded. This will help ensure compliance with activity restrictions over Community Development Block Grant Funds.

Official's Response: See corrective action plan.

Time and Effort

Finding Number	2012-005
CFDA Title and Number	Community Development Block Grants/ Entitlement Grants CFDA # 14,218
Federal Award Number / Year	2012
Federal Agency	U.S Department of Housing and Urban Development
Pass-Through Agency	NA

QUESTIONED COST/MATERIAL NONCOMPLIANCE – ALLOWABLE COSTS/COST PRINCIPALS/MATERIAL WEAKNESS

2 C.F.R. Part 225, Appendix B (8)(h) provides, in part, salaries and wages will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the government unit. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for that period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Such documentary support will be required where employees work on more than one Federal award, or a federal award and a non-Federal award. Personal activity reports or equivalent documentation must meet the following standards:

- They must reflect an after-the-fact distribution of the actual activity of each employee;
- They must account for the total activity for which the employee is compensated;
- They must be prepared at least monthly and must coincide with one or more pay periods; and
- They must be signed by the employee.

During our testing of the Community Development Block Grant (CDBG), we noted the City had ten employees who worked solely on the CDBG program; however, the employees did not complete semi-annual certifications indicating they worked solely on the program. In addition, we noted two employees whose salaries were allocated to the CDBG program and the General Fund, one employee's salary was allocated as \$1,423.70 to CDBG and \$38,872.96 to General and the other was allocated as \$490.74 to CDBG and \$35,906.48 to General; however, these employees did not complete personal activity reports to documenting the time worked on the program. Because there were no semi-annual certifications or personal activity reports we consider the entire amount of payroll charged to the CDBG program of \$208,429 to be a federal questioned cost.

The City should maintain semi-annual certification, personal activity reports, or equivalent documentation required for all employees paid from any federal programs, in accordance with the requirements of 2 C.F.R. Part 225, Appendix B 8(h). This will help ensure the City is in compliance with all Federal time and effort documentation requirements. Furthermore, failure to maintain adequate time and effort documentation could compromise the City's eligibility to participate in future Federal grant programs.

Official's Response: See corrective action plan.

Assistance to Firefighters Grant

Finding Number	2012-006
CFDA Title and Number	Assistance to Firefighters Grant CFDA # 97.044
Federal Award Number / Year	2012
Federal Agency	U.S. Department of Homeland Security
Pass-Through Agency	NA

QUESTIONED COST/MATERIAL NONCOMPLIANCE – PROCUREMENT, SUSPENSION AND DEBARMENT/MATERIAL WEAKNESS

44 CFR 13.26 (c) states all grantees must follow their own established procurement process when buying anything with Federal grant funds.

The Assistance to Firefighters Grant Guidance and Application Kit states all procurement transactions shall be conducted in a manner that provides open and free competition, promotes competition and ensures advantageous pricing by soliciting bids from multiple vendors and ensures that purchases are made from the vendor whose bid is responsive to the solicitation and is most advantageous to the grantee when price, quality and other factors are considered.

Furthermore, the City's procurement policy states The City of Massillon shall follow applicable local, state and federal laws with regard to the procurement of goods and services. The City will also comply with Ohio Revised Code Chapter 735 and all applicable standards and regulations regarding acceptable practices, conflicts of interest and expected standards of ethical and moral behavior.

During 2012, the City purchased thirty six (36) SCBA units totaling \$277,920.00 and one (1) compressor for \$50,000.00 with Assistance for Firefighter Grant funds and did not solicit bids before selecting a vendor for this purchase. Therefore, we consider \$327,920 to be a federal questioned cost.

The City should follow their procurement policy and grant guidelines to help ensure procurement transactions are conducted in a manner that provides open and free competition.

Official's Response: See corrective action plan

Davis Bacon Act

Finding Number	2012-007
CFDA Title and Number	Community Development Block Grants/ Entitlement Grants CFDA # 14,218
Federal Award Number / Year	2012
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	NA

MATERIAL NONCOMPLIANCE – DAVIS BACON ACT/SIGNIFICANT DEFECIENCY

29 CFR Sections 5.5 and 5.6 provides non-federal entities shall include in their construction contracts subjects to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and Department of Labor (DOL) regulations. This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and statements of compliance (certified payrolls).

During 2012, the City contracted with a contractor for a sidewalk replacement project. However, the contractor did not comply with the Davis-Bacon Act requirements.

The City should include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations in accordance with 29 C.F.R. Sections 5.5 and 5.6. This will help ensure the City is in compliance with all Federal Davis-Bacon requirements.

Official's Response: See corrective action plan.

Federal Equipment

Finding Number	2012-008
CFDA Title and Number	Assistance to Firefighters Grant CFDA #97.044
Federal Award Number / Year	2012
Federal Agency	U.S. Department of Homeland Security
Pass-Through Agency	NA

MATERIAL NONCOMPLIANCE – EQUIPMENT AND REAL PROPERTY MANAGEMENT/SIGNIFICANT DEFICIENCY

2 CFR 215.34(f) provides the recipient's property management standards for equipment acquired with Federal funds and federally-owned equipment shall include all of the following:

- (i) A description of the equipment;
- (ii) Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number;
- (iii) Source of the equipment, including the award number;
- (iv) Whether title vests in the recipient or the Federal Government;
- (v) Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost;
- (vi) Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government);
- (vii) Location and condition of the equipment and the date the information was reported;
- (viii) Unit acquisition cost;
- (ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the Federal awarding agency for its share.

During 2012, the City purchased thirty six (36) Self Contained Breathing Apparatus (SCBA) units totaling \$277,920 and one (1) compressor for \$50,000 with Assistance for Firefighter Grant funds. The equipment was not capitalized and not included in the City's equipment records.

The City should capitalize all equipment purchased exceeding the \$5,000 capitalization threshold and record the equipment in the City's equipment records. This will help ensure compliance with federal requirements and ensure equipment purchased with federal monies is clearly labeled as such.

Official's Response: See corrective action plan.

CITY OF MASSILLON
STARK COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Ohio Rev. Code Section 5705.41(B), failure to appropriate funds.	No	Not corrected, repeated as Finding 2012-003

**CITY OF MASSILLON
STARK COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
DECEMBER 31, 2012**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2012-004	The City will continue to obligate no more than 15% of its program year CDBG allocation as described in 24 CFR 570.201(e)(1) and will enforce a July 31 deadline for final payment requests from CDBG subrecipients.	11/4/2013	Ted Herculane, CD Director
2012-005	The City will complete semi-annual certifications for employees working solely on federal programs.	11/4/2013	Ted Herculane, CD Director
2012-006	In the case of the AFG Grant funding for these Self Contained Breathing Apparatus (SCBA or airpacks) and the compressor system...the purpose of the grant was, in great part, to ensure interoperability with our neighboring fire departments (Jackson Township, Perry Township, and Canton Township). If my department provides mutual aid to their departments or vice-versa, having the same equipment is not only desirable but vital in terms of IDLH (Immediately Dangerous to Life and Health) atmospheres. The last thing anyone wants if necessary to utilize another department's equipment is for those personnel to have to learn how to use a new airpack or filling system when—not just minutes—seconds could mean the difference between a rescue (alive) or a recovery (dead). I would like to think a major reason we were awarded this grant was because of the compatibility and interoperability component of it. There are approximately 5 manufacturers of SCBA in the USA. ISI, Sperian, MSA, Scott, and Survivair were among the manufacturers we spoke to and requested quotations from them in developing specifications but in the end, because Jackson Township, Canton Township, Perry Township and others had already chosen MSA and our grant specifically said we'd be compatible with them we had to work with MSA or risk defaulting on one of the main reasons we were awarded in the first place.		Tom Burgasser, Fire Chief
2012-007	The City will include Davis-Bacon Act requirements in all future sidewalk replacement project contracts. The City will continue to include the required language in CDBG-funded construction projects.	11/4/2013	Ted Herculane, CD Director
2012-008	Fixed Asset documentation was completed upon notice of errors and equipment has been added to listings.	11/5/13	Tom Burgasser, Fire Chief