



CITY OF MASSILLON

Basic Financial Statements

Year Ended December 31, 2014

With Independent Auditors' Report





Dave Yost • Auditor of State

City Council
City of Massillon
One James Duncan Plaza
Massillon, Ohio 44646

We have reviewed the *Independent Auditor's Report* of the City of Massillon, Stark County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2014 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

Finding for Recovery:

The City failed to change Paul Lapikas's Ohio Public Employee Pension System deductions from 8.5% to 10% which resulted in an overpayment of \$1,573.

As of August 28, 2015, \$175 of the \$1,573 owed has been repaid and a payment plan has been established for the repayment of the remainder.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code §117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Paul Lapikas in the amount of \$1,398, and in favor of City of Massillon's Wastewater Fund, in the amount of \$1,398.

The City Treasurer and Auditor signed the warrants resulting in improper payments. City Treasurer Maude Slagle, and City Auditor Jayne Ferrero and their bonding company, CNA Surety Direct Bill, will be jointly and severally liable in the amount of \$1,398 and in favor of the wastewater fund to the extent that recovery is not obtained from Paul Lapikas.

Finding for Recovery Repaid Under Audit:

The City failed to change James Mackey's Ohio Public Employee Pension System deductions from 8.5% to 10% which resulted in an overpayment of \$251.

On April 16, 2015, Mr. Mackey wrote check number 8942 for \$251 to reimburse the City for the overpayment.

Finding for Recovery:

The City failed to change Lee McBride's Ohio Public Employee Pension System deductions from 8.5% to 10% which resulted in an overpayment of \$539.

As of August 28, 2015, \$175 of the \$539 owed has been repaid and a payment plan has been established for the repayment of the remainder.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code §117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Lee McBride in the amount of \$364, and in favor of City of Massillon's General Fund, in the amount of \$364.

The City Treasurer and Auditor signed the warrants resulting in improper payments. City Treasurer Maude Slagle, and City Auditor Jayne Ferrero and their bonding company, CNA Surety Direct Bill, will be jointly and severally liable in the amount of \$364 and in favor of the general fund to the extent that recovery is not obtained from Lee McBride.

Finding for Recovery:

The City failed to change Steve Steed's Ohio Public Employee Pension System deductions from 8.5% to 10% which resulted in an overpayment of \$1,576.

As of August 28, 2015, \$175 of the \$1,576 owed has been repaid and a payment plan has been established for the repayment of the remainder.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code §117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Steve Steed in the amount of \$1,401, and in favor of City of Massillon's Wastewater Fund, in the amount of \$1,401.

The City Treasurer and Auditor signed the warrants resulting in improper payments. City Treasurer Maude Slagle, and City Auditor Jayne Ferrero and their bonding company, CNA Surety Direct Bill, will be jointly and severally liable in the amount of \$1,401 and in favor of the wastewater fund to the extent that recovery is not obtained from Steven Steed.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

September 16, 2015

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INDEPENDENT AUDITORS' REPORT

To the Members of City Council
City of Massillon, Ohio:

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, Ohio (the "City"), as of and for the year ended December 31, 2014, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards general accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously 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, Ohio as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and Parks and Recreation Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 21, the City was placed in fiscal emergency by the Auditor of State's office on October 8, 2013.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards 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 June 22, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 22, 2015

City of Massillon
Management's Discussion and Analysis
For the Year Ended December 31, 2014
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, 2014. 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 2014 are as follows:

- Entity-wide net position increased in 2014 due to an increase in revenues, mainly capital grants and contributions program revenue and income tax general revenue, and a decrease in expenses, primarily urban redevelopment and housing expense.
- Entity-wide capital assets increased in 2014 due to several street and sewer projects and the completion of a donated ball field renovation.

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 one major proprietary fund.

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 2014?" 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 net position 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.

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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 16. Fund financial statements 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 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.

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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 2014 compared to 2013.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current and Other Assets	\$15,571,740	\$13,064,918	\$22,491,859	\$22,565,283	\$38,063,599	\$35,630,201
Capital Assets, Net	39,289,006	37,071,211	44,510,954	41,283,238	83,799,960	78,354,449
<i>Total Assets</i>	<u>54,860,746</u>	<u>50,136,129</u>	<u>67,002,813</u>	<u>63,848,521</u>	<u>121,863,559</u>	<u>113,984,650</u>
Deferred Outflows of Resources	<u>329,581</u>	<u>360,317</u>	<u>0</u>	<u>0</u>	<u>329,581</u>	<u>360,317</u>
Liabilities						
Current and Other Liabilities	2,101,718	2,033,757	1,159,428	344,479	3,261,146	2,378,236
Long-Term Liabilities:						
Due Within One Year	1,425,794	1,781,446	2,268,876	2,233,406	3,694,670	4,014,852
Due in More than One Year	25,330,727	25,736,281	22,357,052	22,359,411	47,687,779	48,095,692
<i>Total Liabilities</i>	<u>28,858,239</u>	<u>29,551,484</u>	<u>25,785,356</u>	<u>24,937,296</u>	<u>54,643,595</u>	<u>54,488,780</u>
Deferred Inflows of Resources	<u>1,837,042</u>	<u>1,724,810</u>	<u>0</u>	<u>0</u>	<u>1,837,042</u>	<u>1,724,810</u>
Net Position						
Net Investment in Capital Assets	18,667,500	16,504,703	31,048,759	29,847,438	49,716,259	46,352,141
Restricted:						
Capital Projects	1,320,506	994,645	0	0	1,320,506	994,645
Transportation	1,259,561	1,183,909	0	0	1,259,561	1,183,909
Economic Development	718,088	503,680	0	0	718,088	503,680
Other Purposes	632,672	763,666	0	0	632,672	763,666
Unclaimed Monies	22,196	22,979	0	0	22,196	22,979
Unrestricted	1,874,523	(753,430)	10,168,698	9,063,787	12,043,221	8,310,357
<i>Total Net Position</i>	<u>\$24,495,046</u>	<u>\$19,220,152</u>	<u>\$41,217,457</u>	<u>\$38,911,225</u>	<u>\$65,712,503</u>	<u>\$58,131,377</u>

For governmental activities, assets and net position increased while liabilities decreased from 2013. The increase in assets was due to increases in current and other assets and in capital assets. The increase in current and other assets was mainly due to a large increase in equity in pooled cash and cash equivalents, as well as smaller increases in accounts, income taxes, payments in lieu of taxes, and intergovernmental receivables. The large increase in equity in pooled cash and cash equivalents resulted from revenues significantly outpacing expenses.

The increase in cash and cash equivalents with fiscal agents resulted from the refinancing of the HUD Section 108 loan and was offset by an equal decrease in loans receivable.

The decrease in liabilities was due to decreases in long-term liabilities resulting from the City's payments on debt and from City employees' retirements, which reduced the compensated absences liability.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. Total assets increased because of the large increases in current assets, primarily cash, and capital assets. The increase in capital assets was due to the large increase in depreciable capital assets which resulted from the completion of several street projects and a ball field renovation that was donated to the City. 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,

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2014, was \$18,667,500. 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 business-type activities increased in 2014 from 2013. The increase in the net position was mainly due to increases in revenues, including capital grants. The business-type activities had an increase in unrestricted net position primarily due to the increase in equity in pooled cash and cash equivalents. Equity in pooled cash and cash equivalents increased mainly due to an increase from 2013 in charges for services operating revenues and intergovernmental non-operating revenues.

Table 2 shows the changes in net position for the year ended December 31, 2014, compared to 2013.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues:						
Charges for Services, Sales and Assessments	\$6,330,865	\$5,654,164	\$8,140,425	\$8,084,031	\$14,471,290	\$13,738,195
Operating Grants and Contributions	3,375,218	3,602,293	0	0	3,375,218	3,602,293
Capital Grants and Contributions	1,665,183	624,535	635,118	0	2,300,301	624,535
Total Program Revenues	11,371,266	9,880,992	8,775,543	8,084,031	20,146,809	17,965,023
General Revenues:						
Property Taxes	1,423,254	1,436,609	0	0	1,423,254	1,436,609
Income Taxes	16,183,295	15,205,202	0	0	16,183,295	15,205,202
Intergovernmental	1,326,656	907,708	0	0	1,326,656	907,708
Payment in Lieu of Taxes	464,545	443,360	0	0	464,545	443,360
Interest	13,587	85,231	0	0	13,587	85,231
Other	655,202	1,132,746	31,911	34,693	687,113	1,167,439
Total General Revenues	20,066,539	19,210,856	31,911	34,693	20,098,450	19,245,549
Total Revenues	31,437,805	29,091,848	8,807,454	8,118,724	40,245,259	37,210,572
Program Expenses						
Governmental Activities:						
General Government	6,802,588	6,371,063	0	0	6,802,588	6,371,063
Security of Persons and Property	10,224,535	10,266,413	0	0	10,224,535	10,266,413
Transportation	2,891,780	3,656,350	0	0	2,891,780	3,656,350
Public Health and Welfare	635,108	619,320	0	0	635,108	619,320
Leisure Time Activities	3,853,292	3,559,938	0	0	3,853,292	3,559,938
Basic Utility Service	4,281	2,645	0	0	4,281	2,645
Economic Development and Assistance	597,724	775,851	0	0	597,724	775,851
Urban Redevelopment and Housing	78,911	3,336,734	0	0	78,911	3,336,734
Interest and Fiscal Charges	1,074,692	1,109,086	0	0	1,074,692	1,109,086
Wastewater	0	0	6,501,222	6,916,095	6,501,222	6,916,095
Solid Waste	0	0	0	300,310	0	300,310
Total Expenses	26,162,911	29,697,400	6,501,222	7,216,405	32,664,133	36,913,805
Increase (Decrease) in Net Position before Transfers	5,274,894	(605,552)	2,306,232	902,319	7,581,126	296,767
Transfers	0	142,148	0	(142,148)	0	0
Increase (Decrease) in Net Position	5,274,894	(463,404)	2,306,232	760,171	7,581,126	296,767
Net Position Beginning of Year	19,220,152	19,683,556	38,911,225	38,151,054	58,131,377	57,834,610
Net Position End of Year	\$24,495,046	\$19,220,152	\$41,217,457	\$38,911,225	\$65,712,503	\$58,131,377

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Governmental Activities

The net position of governmental activities increased in 2014 due to an increase in revenues and a decrease in expenses. The funding for governmental activities comes from several different sources, with municipal income tax being the largest contributor. Income tax revenues increased from 2013 to 2014 due to an increase in withholdings. The City's governmental activities had a decrease in total expenses due mainly to a large decrease in urban redevelopment and housing expenses, as well as a smaller decrease in transportation expense. Urban redevelopment and housing expenses decreased significantly in 2014 primarily due to the recognition in 2013 of uncollectible amounts that were related to loans that the City had issued in prior years.

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 and 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, 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. Capital grants and contributions increased significantly from 2013 due to a donated ball field renovation.

General revenues accounted for a large portion of total governmental revenues. These revenues primarily consist of income tax revenue. Other primary sources of general revenues are property tax revenue and intergovernmental revenue.

Business-Type Activities

The wastewater fund is the City's enterprise fund. The solid waste district was discontinued in 2013 and fully closed out in 2014; the closing was deemed necessary by City Council due to the cost of operations. Business-type activities reported an increase in total net position from 2013. This increase was mainly due to increases in capital grants and contributions and charges for services, sales and assessments program revenues. The increase in capital grants and contributions resulted from grants the City received for some sewer infrastructure projects completed during 2014.

The City's ability to take on additional debt in prior years was enabled by the cooperative agreement with Stark County to share the cost of upgrading the Wastewater Treatment Plant Facility to handle additional capacity. As a result of this agreement, the City relies on the County for approximately \$1.25 million in debt service participation annually.

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 of the general fund was \$2,369,034, a significant increase from the prior year fund balance of \$953,514. The increase in the general fund balance in 2014 is attributed to revenues continuing to exceed expenditures, despite the increase in total expenditures from 2013 outpacing the increase in revenues. Total expenditures increased \$1,897,287 from 2013 mainly due to increases in security of persons and property expenditures and general government expenditures. Total revenues increased \$831,658 from the prior year, primarily income tax and intergovernmental revenues.

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The parks and recreation special revenue fund had an increase in fund balance of \$91,814. This was achieved by revenues exceeding expenditures, despite the increase in expenditures outpacing the increase in revenues, mainly charges for services and intergovernmental revenues.

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.

The most significant budgeted governmental fund is the general fund. The final budget (estimated) revenue exceeded the original estimated revenue by \$2,795,685. The most significant variance between the original budgeted revenue and final budgeted revenue amounts was to income taxes revenue due to increased withholdings. Overall, total actual revenues were equal to final budgeted revenues. During the year, these estimates were changed as new information was made available.

Final budgeted expenditures increased \$2,042,015, or 13.51 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 final budgeted expenditures exceeded actual expenditures and encumbrances by \$558,278.

Capital Assets and Debt Administration

Capital Assets

Table 3 shows the changes in capital assets for the year ended December 31, 2014, compared to 2013.

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$10,855,289	\$10,855,289	\$59,400	\$59,400	\$10,914,689	\$10,914,689
Construction in Progress	59,126	136,098	2,579,918	149,235	2,639,044	285,333
Land Improvements	3,117,137	2,337,510	0	0	3,117,137	2,337,510
Buildings and Improvements	7,418,160	7,732,984	742,356	916,700	8,160,516	8,649,684
Vehicles	953,186	1,010,324	444,990	511,004	1,398,176	1,521,328
Machinery and Equipment	1,052,909	1,034,232	757,599	764,445	1,810,508	1,798,677
Infrastructure	15,833,199	13,964,774	39,926,691	38,882,454	55,759,890	52,847,228
Total Capital Assets	\$39,289,006	\$37,071,211	\$44,510,954	\$41,283,238	\$83,799,960	\$78,354,449

At the end of 2014, the City had \$83,799,960 in capital assets (net of accumulated depreciation). Of this total, \$39,289,006 was reported in governmental activities and \$44,510,954 was reported in business-type activities.

City of Massillon
Management's Discussion and Analysis
For the Year Ended December 31, 2014
Unaudited

For both governmental activities and business-type activities, the increase in total capital assets was due to additions, which included several street and sewer infrastructure projects, exceeding annual depreciation. See Note 12 to the basic financial statements for detail on governmental and business-type activities capital assets.

Debt

At December 31, 2014, the City had total long-term obligations outstanding of \$51,382,449. Of this total, \$3,694,670 is due within one year and \$47,687,779 is due in more than one year.

Table 4 below summarizes the long-term obligations outstanding:

Table 4
 Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds	\$19,554,318	\$20,757,874	\$0	\$0	\$19,554,318	\$20,757,874
Loans Payable	2,632,665	1,793,972	24,248,805	24,174,276	26,881,470	25,968,248
Police and Fire Pension	1,262,359	1,300,482	0	0	1,262,359	1,300,482
Compensated Absences	2,805,148	3,047,841	206,559	207,914	3,011,707	3,255,755
Judgment Payable	420,000	490,000	0	0	420,000	490,000
Capital Leases	82,031	127,558	170,564	210,627	252,595	338,185
Total	\$26,756,521	\$27,517,727	\$24,625,928	\$24,592,817	\$51,382,449	\$52,110,544

All governmental long-term debt will be repaid by the general fund, street construction, state highway, community development, WIC program, parks and recreation, police pension, 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 wastewater enterprise fund. The OWDA loans are paid for with a combination of sewer revenues, special assessments, and participation revenues from Stark County.

At December 31, 2014, the City's overall legal debt margin was \$32,923,326 with an unvoted debt margin of \$6,993,939. The City's credit rating remained at Baa1 (Moody's) in 2014. However, the outlook was changed from negative to stable. See Notes 15 and 16 to the basic financial statements for details on the City's long-term obligations.

Current Financial Related Activities

In 2014 the additional unexpected revenue received by the City was a key factor in keeping ahead of expenses and ending the year in a positive status with a carryover balance.

Income tax was higher than anticipated due to increased withholding taxes.

The Lincoln Centre Phase II refunding bonds were paid off in December 2014. This debt was paid with a transfer from the general fund.

The City continues to maintain and/or cut costs in various areas pertinent to managing a balanced budget.

City of Massillon
Management's Discussion and Analysis
For the Year Ended December 31, 2014
Unaudited

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. Those employees were called back in 2014.

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.

Basic Financial Statements

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City of Massillon, Ohio

Statement of Net Position

December 31, 2014

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$6,198,885	\$7,925,228	\$14,124,113
Cash and Cash Equivalents:			
In Segregated Accounts	132,862	0	132,862
With Fiscal Agents	1,400,000	0	1,400,000
Materials and Supplies Inventory	80,816	510	81,326
Accrued Interest Receivable	1,362	0	1,362
Accounts Receivable	1,099,411	2,648,927	3,748,338
Loans Receivable	19,035	0	19,035
Intergovernmental Receivable	1,364,324	11,917,194	13,281,518
Income Taxes Receivable	3,164,715	0	3,164,715
Property Taxes Receivable	1,659,204	0	1,659,204
Payment in Lieu of Taxes Receivable	451,126	0	451,126
Nondepreciable Capital Assets	10,914,415	2,639,318	13,553,733
Depreciable Capital Assets, Net	28,374,591	41,871,636	70,246,227
<i>Total Assets</i>	<u>54,860,746</u>	<u>67,002,813</u>	<u>121,863,559</u>
Deferred Outflows of Resources			
Deferred Charge on Refunding	329,581	0	329,581
Liabilities			
Accounts Payable	243,396	183,699	427,095
Accrued Wages	621,354	76,865	698,219
Contracts Payable	270,799	841,056	1,111,855
Intergovernmental Payable	587,383	53,427	640,810
Retainage Payable	112,146	3,489	115,635
Matured Compensated Absences Payable	28,833	0	28,833
Accrued Interest Payable	105,500	892	106,392
Unearned Revenue	132,307	0	132,307
Long-Term Liabilities:			
Due Within One Year	1,425,794	2,268,876	3,694,670
Due In More Than One Year	25,330,727	22,357,052	47,687,779
<i>Total Liabilities</i>	<u>28,858,239</u>	<u>25,785,356</u>	<u>54,643,595</u>
Deferred Inflows of Resources			
Property Taxes	1,385,916	0	1,385,916
Payment in Lieu of Taxes	451,126	0	451,126
<i>Total Deferred Inflows of Resources</i>	<u>1,837,042</u>	<u>0</u>	<u>1,837,042</u>
Net Position			
Net Investment in Capital Assets	18,667,500	31,048,759	49,716,259
Restricted for:			
Capital Projects	1,320,506	0	1,320,506
Transportation	1,259,561	0	1,259,561
Economic Development	718,088	0	718,088
Other Purposes	632,672	0	632,672
Unclaimed Monies	22,196	0	22,196
Unrestricted	1,874,523	10,168,698	12,043,221
<i>Total Net Position</i>	<u>\$24,495,046</u>	<u>\$41,217,457</u>	<u>\$65,712,503</u>

City of Massillon, Ohio
Statement of Activities
For the Year Ended December 31, 2014

	Expenses	Program Revenues		
		Charges for Services, Sales and Assessments	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$6,802,588	\$1,826,836	\$37,716	\$0
Security of Persons and Property	10,224,535	1,836,411	772,900	0
Transportation	2,891,780	264,371	1,651,216	665,183
Public Health and Welfare	635,108	209,769	117,946	0
Leisure Time Activities	3,853,292	2,161,563	91,707	1,000,000
Basic Utility Service	4,281	0	516	0
Economic Development and Assistance	597,724	22,915	647,861	0
Urban Redevelopment and Housing	78,911	9,000	55,356	0
Interest and Fiscal Charges	1,074,692	0	0	0
<i>Total Governmental Activities</i>	<u>26,162,911</u>	<u>6,330,865</u>	<u>3,375,218</u>	<u>1,665,183</u>
Business-Type Activities:				
Wastewater	<u>6,501,222</u>	<u>8,140,425</u>	<u>0</u>	<u>635,118</u>
<i>Total Business-Type Activities</i>	<u>6,501,222</u>	<u>8,140,425</u>	<u>0</u>	<u>635,118</u>
<i>Total</i>	<u><u>\$32,664,133</u></u>	<u><u>\$14,471,290</u></u>	<u><u>\$3,375,218</u></u>	<u><u>\$2,300,301</u></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

Net Position End of Year

See accompanying notes to the basic financial statements

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
(\$4,938,036)	\$0	(\$4,938,036)
(7,615,224)	0	(7,615,224)
(311,010)	0	(311,010)
(307,393)	0	(307,393)
(600,022)	0	(600,022)
(3,765)	0	(3,765)
73,052	0	73,052
(14,555)	0	(14,555)
(1,074,692)	0	(1,074,692)
<u>(14,791,645)</u>	<u>0</u>	<u>(14,791,645)</u>
<u>0</u>	<u>2,274,321</u>	<u>2,274,321</u>
<u>0</u>	<u>2,274,321</u>	<u>2,274,321</u>
<u>(14,791,645)</u>	<u>2,274,321</u>	<u>(12,517,324)</u>
1,162,350	0	1,162,350
260,904	0	260,904
13,446,329	0	13,446,329
1,516,960	0	1,516,960
69,583	0	69,583
1,150,423	0	1,150,423
1,326,656	0	1,326,656
464,545	0	464,545
13,587	0	13,587
655,202	31,911	687,113
<u>20,066,539</u>	<u>31,911</u>	<u>20,098,450</u>
5,274,894	2,306,232	7,581,126
<u>19,220,152</u>	<u>38,911,225</u>	<u>58,131,377</u>
<u>\$24,495,046</u>	<u>\$41,217,457</u>	<u>\$65,712,503</u>

City of Massillon, Ohio

Balance Sheet

Governmental Funds

December 31, 2014

	General	Parks and Recreation	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,111,917	\$772,430	\$4,292,342	\$6,176,689
Cash and Cash Equivalents:				
In Segregated Accounts	89,958	0	42,904	132,862
With Fiscal Agents	0	0	1,400,000	1,400,000
Materials and Supplies Inventory	62,458	18,358	0	80,816
Accrued Interest Receivable	1,362	0	0	1,362
Accounts Receivable	188,281	185,116	726,014	1,099,411
Loans Receivable	0	0	19,035	19,035
Interfund Receivable	70,000	0	0	70,000
Intergovernmental Receivable	492,784	0	871,540	1,364,324
Income Taxes Receivable	2,610,889	224,167	329,659	3,164,715
Property Taxes Receivable	1,342,552	0	316,652	1,659,204
Payment in Lieu of Taxes Receivable	0	0	451,126	451,126
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	22,196	0	0	22,196
<i>Total Assets</i>	<u>\$5,992,397</u>	<u>\$1,200,071</u>	<u>\$8,449,272</u>	<u>\$15,641,740</u>
Liabilities				
Accounts Payable	\$111,971	\$53,724	\$77,701	\$243,396
Accrued Wages	495,913	55,722	69,719	621,354
Contracts Payable	129,603	14,238	126,958	270,799
Interfund Payable	0	70,000	0	70,000
Intergovernmental Payable	378,108	54,078	155,197	587,383
Retainage Payable	46,655	0	65,491	112,146
Matured Compensated Absences Payable	0	9,912	18,921	28,833
Unearned Revenue	0	132,307	0	132,307
<i>Total Liabilities</i>	<u>1,162,250</u>	<u>389,981</u>	<u>513,987</u>	<u>2,066,218</u>
Deferred Inflows of Resources				
Property Taxes	1,114,008	0	271,908	1,385,916
Payment in Lieu of Taxes	0	0	451,126	451,126
Unavailable Revenues	1,347,105	246,996	1,477,416	3,071,517
<i>Total Deferred Inflows of Resources</i>	<u>2,461,113</u>	<u>246,996</u>	<u>2,200,450</u>	<u>4,908,559</u>
Fund Balances				
Nonspendable	154,654	18,358	0	173,012
Restricted	0	0	4,556,603	4,556,603
Committed	0	544,736	1,229,156	1,773,892
Assigned	131,560	0	127,186	258,746
Unassigned (Deficit)	2,082,820	0	(178,110)	1,904,710
<i>Total Fund Balances</i>	<u>2,369,034</u>	<u>563,094</u>	<u>5,734,835</u>	<u>8,666,963</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$5,992,397</u>	<u>\$1,200,071</u>	<u>\$8,449,272</u>	<u>\$15,641,740</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, 2014*

Total Governmental Fund Balances	\$8,666,963
 <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.	39,289,006
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
Delinquent Property Taxes	273,288
Income Taxes	873,601
Intergovernmental	938,305
Charges for Services	986,323
Total	3,071,517
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(105,500)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(19,554,318)
Loans Payable	(2,632,665)
Police and Fire Pension	(1,262,359)
Compensated Absences	(2,805,148)
Judgments	(420,000)
Capital Leases	(82,031)
Total	(26,756,521)
Deferred charges on refunding related to the issuance of long-term refunding debt will be amortized over the life of the debt on the statement of net position.	329,581
 <i>Net Position of Governmental Activities</i>	 <u>\$24,495,046</u>

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, 2014

	General	Parks and Recreation	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$1,154,889	\$0	\$259,848	\$1,414,737
Income Taxes	13,215,139	1,131,002	1,562,979	15,909,120
Payment in Lieu of Taxes	0	0	464,545	464,545
Special Assessments	0	0	4,494	4,494
Intergovernmental	2,059,881	0	3,200,381	5,260,262
Interest	13,587	0	0	13,587
Licenses and Permits	683,761	47,065	74,476	805,302
Fines and Forfeitures	1,202,793	0	675,492	1,878,285
Charges for Services	1,295,866	2,024,642	191,680	3,512,188
Contributions and Donations	0	0	91,707	91,707
Other	334,346	116,906	203,950	655,202
<i>Total Revenues</i>	<u>19,960,262</u>	<u>3,319,615</u>	<u>6,729,552</u>	<u>30,009,429</u>
Expenditures				
Current:				
General Government	6,026,025	0	708,030	6,734,055
Security of Persons and Property	9,051,764	0	1,245,429	10,297,193
Transportation	1,304,227	0	1,711,943	3,016,170
Public Health and Welfare	320,272	0	312,335	632,607
Leisure Time Activities	0	3,227,801	74,226	3,302,027
Basic Utility Service	0	0	4,281	4,281
Economic Development and Assistance	12,585	0	593,182	605,767
Urban Redevelopment and Housing	0	0	78,911	78,911
Capital Outlay	0	0	1,947,696	1,947,696
Debt Service:				
Principal Retirement	0	0	1,382,738	1,382,738
Interest and Fiscal Charges	0	0	983,431	983,431
Capital Appreciation Bonds Interest	0	0	75,543	75,543
<i>Total Expenditures</i>	<u>16,714,873</u>	<u>3,227,801</u>	<u>9,117,745</u>	<u>29,060,419</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,245,389</u>	<u>91,814</u>	<u>(2,388,193)</u>	<u>949,010</u>
Other Financing Sources (Uses)				
OPWC Loans Issued	0	0	953,324	953,324
Transfers In	0	0	1,829,869	1,829,869
Transfers Out	(1,829,869)	0	0	(1,829,869)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,829,869)</u>	<u>0</u>	<u>2,783,193</u>	<u>953,324</u>
<i>Net Change in Fund Balances</i>	1,415,520	91,814	395,000	1,902,334
<i>Fund Balances Beginning of Year</i>	953,514	471,280	5,339,835	6,764,629
<i>Fund Balances End of Year</i>	<u>\$2,369,034</u>	<u>\$563,094</u>	<u>\$5,734,835</u>	<u>\$8,666,963</u>

See accompanying notes to the basic financial statements

City of Massillon, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2014*

Net Change in Fund Balances - Total Governmental Funds \$1,902,334

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

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

Capital Asset Additions	3,192,913	
Capital Contribution	1,000,000	
Current Year Depreciation	(1,975,118)	
Total	2,217,795	2,217,795

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

Delinquent Property Taxes	8,517	
Income Taxes	274,175	
Intergovernmental	15,088	
Charges for Services	130,596	
Total	428,376	428,376

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net position, such as OPWC Loans issued, are not reported as revenues in the statement of activities. (953,324)

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. 1,458,281

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 the governmental funds.

Accrued Interest	(4,081)	
Amortization of Deferred Loss	(30,736)	
Bond Accretion	(48,455)	
Amortization of Discount	(7,989)	
Total	(91,261)	(91,261)

Some expenses reported in the statement of activities, such as compensated absences and judgments, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. 312,693

Change in Net Position of Governmental Activities \$5,274,894

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, 2014

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$1,006,491	\$1,168,091	\$1,168,091	\$0
Income Taxes	11,096,226	12,925,924	12,925,924	0
Intergovernmental	1,670,770	1,995,208	1,995,208	0
Interest	10,543	12,236	12,236	0
Licenses and Permits	587,878	682,266	682,266	0
Fines and Forfeitures	1,037,717	1,204,331	1,204,331	0
Charges for Services	1,066,847	1,238,138	1,238,138	0
Other	286,269	332,232	332,232	0
<i>Total Revenues</i>	<u>16,762,741</u>	<u>19,558,426</u>	<u>19,558,426</u>	<u>0</u>
Expenditures				
Current:				
General Government	5,453,513	6,198,937	5,971,466	227,471
Security of Persons and Property	8,269,677	9,341,156	9,118,950	222,206
Transportation	1,101,810	1,289,908	1,182,780	107,128
Public Health and Welfare	285,676	322,690	321,217	1,473
<i>Total Expenditures</i>	<u>15,110,676</u>	<u>17,152,691</u>	<u>16,594,413</u>	<u>558,278</u>
<i>Excess of Revenues Over Expenditures</i>	<u>1,652,065</u>	<u>2,405,735</u>	<u>2,964,013</u>	<u>558,278</u>
Other Financing Sources (Uses)				
Transfers In	29,775	29,775	29,775	0
Transfers Out	(2,041,947)	(2,041,947)	(1,840,462)	201,485
<i>Total Other Financing Sources (Uses)</i>	<u>(2,012,172)</u>	<u>(2,012,172)</u>	<u>(1,810,687)</u>	<u>201,485</u>
<i>Net Change in Fund Balance</i>	(360,107)	393,563	1,153,326	759,763
<i>Fund Deficit Beginning of Year</i>	(1,062,233)	(1,062,233)	(1,062,233)	0
Prior Year Encumbrances Appropriated	716,558	716,558	716,558	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$705,782)</u>	<u>\$47,888</u>	<u>\$807,651</u>	<u>\$759,763</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, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Income Taxes	\$1,022,816	\$1,129,824	\$1,061,502	(\$68,322)
Licenses and Permits	42,607	47,065	47,065	0
Charges for Services	1,730,001	1,910,994	1,910,994	0
Other	105,834	116,906	116,906	0
<i>Total Revenues</i>	2,901,258	3,204,789	3,136,467	(68,322)
Expenditures				
Current:				
Leisure Time Activities	3,256,013	3,376,722	3,261,899	114,823
<i>Excess of Revenues Under Expenditures</i>	(354,755)	(171,933)	(125,432)	46,501
<i>Net Change in Fund Balance</i>	(354,755)	(171,933)	(125,432)	46,501
<i>Fund Balance Beginning of Year</i>	675,814	675,814	675,814	0
Prior Year Encumbrances Appropriated	76,143	76,143	76,143	0
<i>Fund Balance End of Year</i>	<u>\$397,202</u>	<u>\$580,024</u>	<u>\$626,525</u>	<u>\$46,501</u>

See accompanying notes to the basic financial statements

City of Massillon, Ohio
Statement of Fund Net Position
Proprietary Fund
December 31, 2014

	<u>Wastewater</u>
Assets	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$7,925,228
Accounts Receivable	2,648,927
Intergovernmental Receivable	11,917,194
Materials and Supplies Inventory	510
<i>Total Current Assets</i>	<u>22,491,859</u>
<i>Non-Current Assets:</i>	
Nondepreciable Capital Assets	2,639,318
Depreciable Capital Assets, Net	41,871,636
<i>Total Non-Current Assets</i>	<u>44,510,954</u>
<i>Total Assets</i>	<u>67,002,813</u>
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	183,699
Accrued Wages	76,865
Contracts Payable	841,056
Intergovernmental Payable	53,427
Retainage Payable	3,489
Accrued Interest Payable	892
Compensated Absences Payable	8,507
Loans Payable	2,219,300
Capital Leases Payable	41,069
<i>Total Current Liabilities</i>	<u>3,428,304</u>
<i>Long-Term Liabilities (net of current portion):</i>	
Compensated Absences Payable	198,052
Loans Payable	22,029,505
Capital Leases Payable	129,495
<i>Total Long-Term Liabilities</i>	<u>22,357,052</u>
<i>Total Liabilities</i>	<u>25,785,356</u>
Net Position	
Net Investment in Capital Assets	31,048,759
Unrestricted	10,168,698
<i>Total Net Position</i>	<u>\$41,217,457</u>

See accompanying notes to the basic financial statements

City of Massillon, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Proprietary Fund
For the Year Ended December 31, 2014*

	<u>Wastewater</u>
Operating Revenues	
Charges for Services	\$8,140,425
Other	31,911
	<u>8,172,336</u>
<i>Total Operating Revenues</i>	<u>8,172,336</u>
Operating Expenses	
Personal Services	1,663,419
Fringe Benefits	671,662
Contractual Services	1,374,387
Materials and Supplies	782,968
Depreciation	1,683,473
Refunds	1,257
	<u>6,177,166</u>
<i>Total Operating Expenses</i>	<u>6,177,166</u>
<i>Operating Income</i>	<u>1,995,170</u>
Non-Operating Revenues (Expenses)	
Intergovernmental	635,118
Interest and Fiscal Charges	(324,056)
	<u>311,062</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>311,062</u>
<i>Change in Net Position</i>	2,306,232
<i>Net Position Beginning of Year</i>	<u>38,911,225</u>
<i>Net Position End of Year</i>	<u><u>\$41,217,457</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, 2014

	Wastewater	Solid Waste	Total
Increase in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$8,140,525	\$0	\$8,140,525
Cash Received from Other Operating Sources	31,911	0	31,911
Cash Payments for Employee Services and Benefits	(2,334,708)	0	(2,334,708)
Cash Payments to Suppliers for Goods and Services	(2,023,675)	0	(2,023,675)
<i>Net Cash Provided by Operating Activities</i>	<u>3,814,053</u>	<u>0</u>	<u>3,814,053</u>
Cash Flows from Noncapital Financing Activities			
Interfund Repayment	0	(29,775)	(29,775)
Cash Flows from Capital and Related Financing Activities			
Capital Grants	1,887,646	0	1,887,646
OPWC Loans Issued	1,148,703	0	1,148,703
OWDA Loan Issued	1,111,902	0	1,111,902
Payments for Capital Acquisitions	(4,231,983)	0	(4,231,983)
Principal Paid on Loans	(2,186,076)	0	(2,186,076)
Interest Paid on Loans	(324,265)	0	(324,265)
Principal Paid on Capital Leases	(40,063)	0	(40,063)
<i>Net Cash Used in Capital and Related Financing Activities</i>	<u>(2,634,136)</u>	<u>0</u>	<u>(2,634,136)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	1,179,917	(29,775)	1,150,142
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>6,745,311</u>	<u>29,775</u>	<u>6,775,086</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$7,925,228</u></u>	<u><u>\$0</u></u>	<u><u>\$7,925,228</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	\$1,995,170	\$0	\$1,995,170
Adjustments:			
Depreciation	1,683,473	0	1,683,473
(Increase) Decrease in Assets:			
Accounts Receivable	87,498	0	87,498
Intergovernmental Receivable	(87,398)	0	(87,398)
Materials and Supplies Inventory	713	0	713
Increase (Decrease) in Liabilities:			
Accounts Payable	81,839	0	81,839
Accrued Wages	9,759	0	9,759
Contracts Payable	52,385	0	52,385
Intergovernmental Payable	(8,031)	0	(8,031)
Compensated Absences Payable	(1,355)	0	(1,355)
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$3,814,053</u></u>	<u><u>\$0</u></u>	<u><u>\$3,814,053</u></u>

During 2014, contracts payable and a retainage payable were recorded in the wastewater fund in the amount of \$679,206. The payable increases the payment for capital acquisitions.

See accompanying notes to the basic financial statements

City of Massillon, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2014

Assets	
Equity in Pooled Cash and Cash Equivalents	\$186,500
Cash and Cash Equivalents In Segregated Accounts	58,575
Intergovernmental Receivable	61,997
Property Taxes Receivable	<u>505,896</u>
<i>Total Assets</i>	<u><u>\$812,968</u></u>
 Liabilities	
Undistributed Monies	\$103,280
Due to Other Governments	628,688
Deposits Held and Due to Others	<u>81,000</u>
<i>Total Liabilities</i>	<u><u>\$812,968</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, 2014

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 19.391 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.

On October 8, 2013, the Auditor of State’s office declared the City of Massillon to be in a state of fiscal emergency 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 composed of the Mayor of the City, Council President, three financial consultants from various corporations and/or organizations within the City and two representatives from the State of Ohio. The City had 120 days after the first meeting of the Commission to approve a financial recovery plan. Once the plan was adopted, the City’s discretion was limited in that all financial activity of the City must be in accordance with the plan. See Note 21 for more information on the City’s fiscal emergency status.

Reporting Entity

A reporting entity is composed 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 that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. 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 8 and 9 to the basic financial statements.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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.

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 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. 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.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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 for and reports committed 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, committed or assigned to a particular purpose.

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 is the City's major enterprise fund:

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

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, deposits held for the repair of fire damaged structures, and for COBRA payments made on behalf of former employees.

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.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities 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 position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

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, payments in lieu of 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 and payments in lieu of taxes is recognized in the year for which the taxes are levied (See Note 7). 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.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

Unearned Revenue Unearned revenue represents amounts under the accrual and modified accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because the amounts have not yet been earned. The City recognizes unearned revenue for prepaid recreation center memberships with membership periods that extend beyond the fiscal year end.

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.

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 and payment in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2014, but which were levied to finance 2015 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.

The City utilizes a financial institution to service the Section 108 HUD loan as principal and interest payments come due. The balance in this account is presented as "cash and cash equivalents with fiscal agents."

Interest revenue credited to the general fund during 2014 amounted to \$13,587, \$12,510 of which is assigned from other City funds.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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 cost 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.

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 backtrending (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 Useful 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.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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 financing uses in the year the bonds are issued.

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.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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).

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 equally 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. City Council assigned fund balance for parking enforcement and for community and economic development. State statute authorizes the City Auditor to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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.

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. 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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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.

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 – Accountability

As of December 31, 2014, the following funds had deficit fund balances:

	<u>Amount</u>
<i>Special Revenue:</i>	
Community Development	(\$2,035)
Fire Pension	(10,243)
<i>Capital Projects:</i>	
Municipal Road	(165,832)

The deficits in the special revenue and capital projects funds were the 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.

Note 4 – 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 and major special revenue funds, is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.
3. Expenditures and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
4. Budgetary revenues and expenditures of the parking enforcement and enterprise zone funds are reclassified to the general fund for GAAP reporting.
5. Encumbrances are treated as expenditures (budget) rather than restricted, committed, or assigned fund balance (GAAP).

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	\$1,415,520	\$91,814
Adjustment for Revenue Accruals	(359,845)	(183,148)
Beginning Unrecorded Cash	596	0
Ending Unrecorded Cash	(585)	0
Adjustment for Expenditure Accruals	384,038	111,807
Perspective Differences:		
Parking Enforcement	(3,206)	0
Enterprise Zone	5,585	0
Adjustment for Encumbrances	(288,777)	(145,905)
Budget Basis	\$1,153,326	(\$125,432)

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

Note 5 – 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	62,458	18,358	0	80,816
Unclaimed Monies	22,196	0	0	22,196
<i>Total Nonspendable</i>	<u>154,654</u>	<u>18,358</u>	<u>0</u>	<u>173,012</u>
<u>Restricted for:</u>				
Court Operations	0	0	338,882	338,882
Police Department	0	0	618,937	618,937
Debt Service Retirement	0	0	1,889	1,889
Street Maintenance	0	0	791,878	791,878
Economic Development	0	0	1,424,877	1,424,877
Community Development	0	0	9,116	9,116
Public Health and Welfare	0	0	40,468	40,468
Capital Improvements	0	0	1,320,506	1,320,506
Community Improvement	0	0	9,000	9,000
Other Purposes	0	0	1,050	1,050
<i>Total Restricted</i>	<u>0</u>	<u>0</u>	<u>4,556,603</u>	<u>4,556,603</u>
<u>Committed to:</u>				
Leisure Time Activities	0	544,736	77,128	621,864
Police Department	0	0	22,854	22,854
Fines and Forfeitures	0	0	50,668	50,668
Economic Development	0	0	267,445	267,445
Debt Service Retirement	0	0	523,570	523,570
Capital Improvements	0	0	287,491	287,491
<i>Total Committed</i>	<u>0</u>	<u>544,736</u>	<u>1,229,156</u>	<u>1,773,892</u>
<u>Assigned to:</u>				
Capital Improvements	0	0	127,186	127,186
City Administration	36,310	0	0	36,310
Court Operations	10,655	0	0	10,655
Engineering and Building Services	13,837	0	0	13,837
Fire and EMS Department	20,408	0	0	20,408
Police Department	7,081	0	0	7,081
Street Maintenance	6,845	0	0	6,845
Parking Enforcement	23,696	0	0	23,696
Community and Economic Development	12,728	0	0	12,728
<i>Total Assigned</i>	<u>131,560</u>	<u>0</u>	<u>127,186</u>	<u>258,746</u>
Unassigned (Deficit)	2,082,820	0	(178,110)	1,904,710
Total Fund Balances	<u><u>\$2,369,034</u></u>	<u><u>\$563,094</u></u>	<u><u>\$5,734,835</u></u>	<u><u>\$8,666,963</u></u>

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

Note 6 – 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;
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. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

City of Massillon, Ohio
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The City has passed an ordinance allowing the City to invest 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. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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, \$6,466,923 of the City's bank balance of \$10,688,824 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.

Investments

As of December 31, 2014, the City had an investment in a repurchase agreement with a fair value of \$5,485,000.

Interest Rate Risk. The City has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and that an investment must be purchased with the expectation that it will be held to maturity. Repurchase agreements are limited to 30 days and the fair value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

Credit Risk. The City has no investment policy that addresses credit risk.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute which states that the securities must be delivered into the custody of the Treasurer or the Treasurer's agent.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

Concentration of Credit Risk. With the exception of U.S. Treasury securities, federal government agency securities, and authorized pools, no more than 50 percent of the City’s total investment portfolio will be invested in a single security type or with a single financial institution. The City’s only investment is a repurchase agreement.

Note 7 – Receivables

Receivables at December 31, 2014, 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. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. All allowances for uncollectibles represent estimates of uncollectible receivables in the loans receivable classification.

	Loans Receivable	Allowance for Uncollectibles	Net Loans Receivable
Governmental Activities	\$1,053,038	\$1,034,003	\$19,035

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2014 for real and public utility property taxes represents collections of 2013 taxes.

2014 real property taxes were levied after October 1, 2014, on the assessed value as of January 1, 2014, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2014 real property taxes are collected in and intended to finance 2015.

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. 2014 public utility property taxes which became a lien December 31, 2013, are levied after October 1, 2014, and are collected in 2015 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2014, was \$4.70 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2014 property tax receipts were based are as follows:

Category	Assessed Values
Real Estate	
Residential/Agricultural	\$319,980,730
Other Real Estate	149,305,740
Tangible Personal Property	
Public Utility	24,054,080
Total	\$493,340,550

City of Massillon, Ohio
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For the Year Ended December 31, 2014

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, 2014, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2014 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.

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 75 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, 82.5 percent, income tax capital improvements fund, 0.83 percent, and parks and recreation fund, 16.67 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 principal items of intergovernmental receivables follows:

Governmental Activities:	
Gasoline Tax	\$571,433
Local Government	304,695
Motor Vehicle License Tax	217,457
Homestead and Rollback	199,202
Prisoner Transportation Fees	38,000
Ohio Development Service Grant	15,877
District Share of Court Costs	11,713
Domestic Violence Grant	5,781
Solid Waste Grant	166
Total	<u><u>\$1,364,324</u></u>
 Business-Type Activities:	
Wastewater	
Stark County - Loan Commitment	\$11,696,575
Stark County - Maintenance Share	220,619
Total	<u><u>\$11,917,194</u></u>

In 2001, the City of Massillon entered into a contractual agreement with Stark County for the expansion of the wastewater treatment plant. The County is responsible for 50 percent of the total loan commitment. The total amount owed to the City as of December 31, 2014, is \$11,696,575. The City owns and maintains the asset. The County is paying for the use of the asset. This amount has been recorded on the City’s books as an asset in “intergovernmental receivable.” The asset is recorded in the wastewater enterprise fund.

City of Massillon, Ohio
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For the Year Ended December 31, 2014

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.

Note 8 – Jointly Governed Organization

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. 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 did not make any contributions 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

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

within the Enterprise Zones of Stark County. The Council's Board exercises total control over the operations of the organization including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the Board. 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.

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 sixty-two member board, the City appoints three 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 2014, the City contributed \$15,125 to the Commission. Complete financial statements may be obtained from the Stark County Regional Planning Commission, Stark County, Ohio.

Note 9 – 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 2014, the City made contributions of \$528,293, 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 10 – Risk Management

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

Property and Liability

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. York Risk Services Group, Inc. (York), 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 York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

City of Massillon, Ohio
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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. 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, 2014 the Pool retained \$350,000 for casualty claims and \$100,000 for property claims). The Board of Directors and York periodically review the financial strength of the Pool and other market conditions to determine the appropriate level of risk the Pool will retain.

Financial Position

PEP's financial statements (for which an independent audit is still ongoing) conform to generally accepted accounting principles, and preliminarily show the following assets, liabilities and net position at December 31, 2014 and 2013:

Casualty and Property Coverage	2014	2013
Assets	\$35,402,177	\$34,411,883
Liabilities	12,363,257	12,760,194
Net Position - Unrestricted	\$23,038,920	\$21,651,689

The casualty coverage assets and net position above include approximately \$10.8 million and \$11.1 million of unpaid claims to be billed to approximately 488 member governments in the future, as of December 31, 2014 and 2013, 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 \$389,662. This payable includes subsequent year's contributions due if the City terminates participation, as described in the last paragraph below.

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
2014	\$369,215
2013	377,244
2012	383,234

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.

The City also has boiler and machinery insurance coverage in the amount of \$20,000,000 through Travelers Insurance and crime policy insurance coverage in the amount of \$50,000 per employee theft through Fidelity and Deposit.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

Workers' Compensation

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 11 – 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, 2014.

Note 12 – Capital Assets

Capital asset activity for governmental activities for the year ended December 31, 2014, was as follows:

	Balance 12/31/2013	Additions	Deductions	Balance 12/31/2014
Governmental Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$10,855,289	\$0	\$0	\$10,855,289
Construction in Progress	136,098	2,882,814	(2,959,786)	59,126
<i>Total Capital Assets, not being depreciated</i>	<u>10,991,387</u>	<u>2,882,814</u>	<u>(2,959,786)</u>	<u>10,914,415</u>
<i>Capital Assets, being depreciated</i>				
Land Improvements	5,583,378	1,013,480	0	6,596,858
Buildings and Improvements	15,566,954	58,209	0	15,625,163
Vehicles	5,117,805	42,000	(443,557)	4,716,248
Machinery and Equipment	4,693,752	196,410	(52,448)	4,837,714
Infrastructure	26,147,632	2,959,786	0	29,107,418
<i>Total Capital Assets, being depreciated</i>	<u>57,109,521</u>	<u>4,269,885</u>	<u>(496,005)</u>	<u>60,883,401</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(3,245,868)	(233,853)	0	(3,479,721)
Buildings and Improvements	(7,833,970)	(373,033)	0	(8,207,003)
Vehicles	(4,107,481)	(99,138)	443,557	(3,763,062)
Machinery and Equipment	(3,659,520)	(177,733)	52,448	(3,784,805)
Infrastructure	(12,182,858)	(1,091,361)	0	(13,274,219)
<i>Total Accumulated Depreciation</i>	<u>(31,029,697)</u>	<u>(1,975,118) *</u>	<u>496,005</u>	<u>(32,508,810)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>26,079,824</u>	<u>2,294,767</u>	<u>0</u>	<u>28,374,591</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$37,071,211</u>	<u>\$5,177,581</u>	<u>(\$2,959,786)</u>	<u>\$39,289,006</u>

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

* Depreciation expense was charged to governmental activities as follows:

General Government	\$148,818
Security of Persons and Property	129,258
Public Health and Welfare	567
Leisure Time Activities	676,486
Transportation	<u>1,019,989</u>
Total Depreciation Expense	<u><u>\$1,975,118</u></u>

Capital asset activity for business-type activities for the year ended December 31, 2014, was as follows:

	Balance 12/31/2013	Additions	Deductions	Balance 12/31/2014
Business-Type Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$59,400	\$0	\$0	\$59,400
Construction in Progress	149,235	4,826,009	(2,395,326)	2,579,918
<i>Total Capital Assets, not being depreciated</i>	<u>208,635</u>	<u>4,826,009</u>	<u>(2,395,326)</u>	<u>2,639,318</u>
<i>Capital Assets, being depreciated</i>				
Buildings and Improvements	7,397,746	0	0	7,397,746
Vehicles	1,262,379	0	0	1,262,379
Machinery and Equipment	2,146,159	85,180	0	2,231,339
Infrastructure	56,630,151	2,395,326	0	59,025,477
<i>Total Capital Assets, being depreciated</i>	<u>67,436,435</u>	<u>2,480,506</u>	<u>0</u>	<u>69,916,941</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(6,481,046)	(174,344)	0	(6,655,390)
Vehicles	(751,375)	(66,014)	0	(817,389)
Machinery and Equipment	(1,381,714)	(92,026)	0	(1,473,740)
Infrastructure	(17,747,697)	(1,351,089)	0	(19,098,786)
<i>Total Accumulated Depreciation</i>	<u>(26,361,832)</u>	<u>(1,683,473)</u>	<u>0</u>	<u>(28,045,305)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>41,074,603</u>	<u>797,033</u>	<u>0</u>	<u>41,871,636</u>
<i>Business-Type Activities Capital Assets, Net</i>	<u><u>\$41,283,238</u></u>	<u><u>\$5,623,042</u></u>	<u><u>(\$2,395,326)</u></u>	<u><u>\$44,510,954</u></u>

Note 13 – 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

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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.

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>, by writing to the Ohio Public Employees Retirement System, 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. 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. For the year ended December 31, 2014, members in state and local divisions contributed 10 percent of covered payroll. For 2014, member and employer contribution rates were consistent across all three plans.

The City's 2014 contribution rate was 14 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. For 2014, the portion of employer contributions allocated to health care was 2 percent for members in the Traditional Pension Plan and the Combined Plan. Effective January 1, 2015, the portion of employer contributions allocated to health care remained at 2 percent. 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, 2014, 2013, and 2012 were \$965,170, \$1,036,088, and \$788,066, respectively. For 2014, 88.69 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012. Contributions to the Member-Directed Plan for 2014 were \$39,878 made by the City and \$28,485 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 visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – Employer and employee contribution rates are set by the Ohio Revised Code. From January 1, 2014, through July 1, 2014, plan members were required to contribute 10.75 percent of their annual covered salary. From July 2, 2014, through December 31, 2014, plan members were required to contribute 11.5 percent of their annual covered salary. Throughout 2014, employers were 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. For 2014 the portion of employer contributions used to fund pension benefits was 19 percent of covered payroll for police officers and 23.5 percent of covered payroll

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for firefighters. The City's contributions to OP&F for police and firefighters pension were \$572,978 and \$787,663 for the year ended December 31, 2014, \$468,064 and \$690,559 for the year ended December 31, 2013, and \$355,930 and \$507,078 for the year ended December 31, 2012, respectively. For 2014, 88.45 percent has been contributed for police and 86.21 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 2013 and 2012.

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, 2014, the unfunded liability of the City was \$1,262,359 payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary.

Note 14 – 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>, by writing to the Ohio Public Employees Retirement System, 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 2014, state and local employers contributed at a rate of 14 percent of covered payroll. This is the maximum employer contribution rate permitted by the Ohio Revised Code.

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Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For 2014, the portion of employer contributions allocated to health care for members in the Traditional Pension Plan and the Combined Plan was 2 percent. Effective January 1, 2015, the portion of employer contributions allocated to healthcare remained at 2 percent for both plans, as recommended by the OPERS Actuary.

The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or the retiree's 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, 2014, 2013, and 2012 were \$160,862, \$79,699, and \$315,226, respectively. For 2014, 88.69 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2013 and 2012.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the 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 visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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 percent of covered payroll for police and firefighters, respectively. Active members do not make contributions to the OPEB Plan.

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 premium 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.

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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 2014, the employer contribution allocated to the health care plan was .5 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 \$15,078 and \$16,759 for the year ended December 31, 2014, \$106,579 and \$122,528 for the year ended December 31, 2013, and \$188,434 and \$198,422 for the year ended December 31, 2012. For 2014, 88.45 percent has been contributed for police and 86.21 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 2013 and 2012.

Note 15 – 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
OPWC Loan - 2006	0.00	492,629	July 1, 2026
OPWC Loan - Hankins Road - 2014	0.00	559,562	Not Finalized
OPWC Loan - 9th St. Improvement - 2014	0.00	393,762	Not Finalized
Housing and Urban Development Section 108 Loan - 1999	6.75	2,250,000	August 1, 2019
Business-Type Activities:			
OWDA Loan - Water Pollution Control Fothergill - 1999	3.81	1,407,776	July 1, 2020
OWDA Loan - WWTP Upgrade Phase I - 2002	1.26	6,131,478	July 1, 2024
OWDA Loan - WWTP Upgrade Phase II - 2002	1.26	36,018,868	July 1, 2024
OWDA Loan - WWTP Nutrient Removal Upgrade Design - 2014	3.37	1,111,902	Not Finalized
OPWC Loan - Griffith Avenue SW Sanitary Sewer - 2013	0.00	86,195	July 1, 2044
OPWC Loan - Levee Infrastructure Improvement - 2014	0.00	1,130,748	Not Finalized

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The changes in long-term obligations during the year were as follows:

	Balance 12/31/2013	Issued	Retired	Balance 12/31/2014	Amounts Due in One Year
Governmental Activities:					
<u>General Obligation Bonds:</u>					
Senior Center Bonds - 1994	\$55,000	\$0	(\$55,000)	\$0	\$0
Park and Recreation Bonds - 2002	3,955,000	0	0	3,955,000	0
Lincoln Center Phase II Refunding Bonds - 2002	305,000	0	(305,000)	0	0
Golf Course Construction Refunding Bonds - 2002					
Serial Bonds	5,420,000	0	(235,000)	5,185,000	175,000
Unamortized Discount	(32,534)	0	3,171	(29,363)	0
Capital Appreciation Bonds	45,424	0	(12,887)	32,537	12,012
Accretion on Bonds	53,137	7,181	(17,113)	43,205	17,988
Marketplace Infrastructure TIF Bonds - 2004					
Serial Bonds	885,000	0	0	885,000	0
Capital Appreciation Bonds	70,037	0	(36,570)	33,467	33,467
Accretion on Bonds	96,454	15,444	(58,430)	53,468	53,468
Lincoln Center Phase III Bonds - 2007					
Serial Bonds	265,000	0	(130,000)	135,000	135,000
Term Bonds	1,455,000	0	0	1,455,000	0
Capital Appreciation Bonds	179,998	0	0	179,998	0
Accretion on Bonds	117,988	25,830	0	143,818	0
Various Purpose Improvement Refunding Bonds - 2012A					
Serial Bonds	7,025,000	0	(410,000)	6,615,000	440,000
Unamortized Discount	(62,630)	0	4,818	(57,812)	0
Various Purpose Improvement Refunding Bonds - 2012B	925,000	0	0	925,000	70,000
Total General Obligation Bonds	<u>20,757,874</u>	<u>48,455</u>	<u>(1,252,011)</u>	<u>19,554,318</u>	<u>936,935</u>
<u>Loans Payable:</u>					
OPWC Loan - 2006	308,972	0	(24,631)	284,341	24,631
OPWC Loan - Hankins Road - 2014	0	559,562	0	559,562	0
OPWC Loan - 9th St. Improvement - 2014	0	393,762	0	393,762	0
HUD Section 108	1,485,000	0	(90,000)	1,395,000	95,000
Total Loans Payable	<u>1,793,972</u>	<u>953,324</u>	<u>(114,631)</u>	<u>2,632,665</u>	<u>119,631</u>
<u>Other Long-Term Obligations:</u>					
Police and Fireman's Pension Liability	1,300,482	0	(38,123)	1,262,359	39,761
Compensated Absences	3,047,841	130,004	(372,697)	2,805,148	211,810
Judgment Payable	490,000	0	(70,000)	420,000	70,000
Capital Leases Payable	127,558	0	(45,527)	82,031	47,657
Total Other Long-Term Obligations	<u>4,965,881</u>	<u>130,004</u>	<u>(526,347)</u>	<u>4,569,538</u>	<u>369,228</u>
Total Governmental Activities	<u>\$27,517,727</u>	<u>\$1,131,783</u>	<u>(\$1,892,989)</u>	<u>\$26,756,521</u>	<u>\$1,425,794</u>

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	Balance 12/31/2013	Issued	Retired	Balance 12/31/2014	Amounts Due in One Year
Business-Type Activities:					
<u>Loans Payable:</u>					
OWDA Loans Payable:					
WPCL Fothergill Loan - 1999	\$577,932	\$0	(\$79,951)	\$497,981	\$83,027
WWTP Upgrade OWDA Phase I Loan - 2002	3,410,428	0	(305,772)	3,104,656	309,636
WWTP Upgrade OWDA Phase II Loan - 2002	20,117,676	0	(1,800,353)	18,317,323	1,823,764
WWTP Nutrient Removal Upgrade Design - 2014	0	1,111,902	0	1,111,902	0
Total OWDA Loans Payable	<u>24,106,036</u>	<u>1,111,902</u>	<u>(2,186,076)</u>	<u>23,031,862</u>	<u>2,216,427</u>
OPWC Loans Payable:					
Griffith Avenue SW Sanitary Sewer Loan - 2013	68,240	17,955	0	86,195	2,873
Levee Infrastructure Improvement Loan - 2014	0	1,130,748	0	1,130,748	0
Total OPWC Loans Payable	<u>68,240</u>	<u>1,148,703</u>	<u>0</u>	<u>1,216,943</u>	<u>2,873</u>
Total Loans Payable	<u>24,174,276</u>	<u>2,260,605</u>	<u>(2,186,076)</u>	<u>24,248,805</u>	<u>2,219,300</u>
<u>Other Long-Term Obligations:</u>					
Compensated Absences	207,914	37,312	(38,667)	206,559	8,507
Capital Leases	210,627	0	(40,063)	170,564	41,069
Total Other Long-Term Obligations	<u>418,541</u>	<u>37,312</u>	<u>(78,730)</u>	<u>377,123</u>	<u>49,576</u>
Total Business-Type Activities	<u>\$24,592,817</u>	<u>\$2,297,917</u>	<u>(\$2,264,806)</u>	<u>\$24,625,928</u>	<u>\$2,268,876</u>

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. These bonds were retired in 2014.

On November 1, 2002, the City issued \$7,281,233 in general obligation bonds with an average interest rate of 4.3 percent to advance refund \$2,510,000 of outstanding golf course construction refunding series bonds with an average interest rate of 5.2 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 golf course refunding series bonds. As a result, the golf course construction 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, 2014, is \$85,000. For the capital appreciation bonds, the amount of additions for 2014 was \$7,181, which represents the annual accretion of discounted interest. \$30,000 of the capital appreciation bonds were retired during 2014, with an outstanding amount at year-end of \$75,742.

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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, 2014, is \$95,000. For the capital appreciation bonds, the amount of additions for 2014 was \$15,444, which represents the annual accretion of discounted interest. \$95,000 of the capital appreciation bonds were retired during 2014, with an outstanding amount at year-end of \$86,935.

During 2007, the Lincoln Center Phase III bonds were issued for \$2,569,998 to finance the construction of the Lincoln Center complex in a redevelopment area. Revenues for payment of interest and principal on the bond result from service payments being made in lieu of taxes.

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, 2014, is \$415,000. The accretion recorded for 2014 was \$25,830, for a total outstanding bond liability of \$323,816.

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 Lincoln Center Phase III current interest term bonds maturing on December 1, 2021, 2024, and 2027, respectively, are subject to mandatory sinking fund redemption requirements at a redemption price of 100 percent of the principal amounts to be redeemed plus accrued interest to the date of redemption, on December 1 in each of the years and in the principal amounts set forth as follows:

Year	Issue		
	\$430,000	\$480,000	\$545,000
2019	\$135,000	\$0	\$0
2020	145,000	0	0
2022	0	155,000	0
2023	0	160,000	0
2025	0	0	175,000
2026	0	0	180,000
	\$280,000	\$315,000	\$355,000
<i>Stated Maturity</i>	<i>12/1/2021</i>	<i>12/1/2024</i>	<i>12/1/2027</i>

The remaining principal amount of the term bonds (\$150,000, \$165,000 and \$190,000) will mature at the stated maturity.

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.

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. On December 31, 2014, \$6,380,000 of the defeased bonds are still outstanding.

The 2006 OPWC loans are composed of two separate, zero percent interest loans. The purposes 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 had received a Section 108 loan from the U.S. Department of Housing and Urban Development (HUD) with the principal amount being \$2,250,000, and the City 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 would 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. In 2014, the City entered an agreement to release them as the mortgagee to the Developer. In the agreement, the City received payment of \$1,400,000. These monies sit in an account with fiscal agents and will be used to pay down the loan as payments come due.

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 agreements provided loan proceeds totaling \$42.9 million which were 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 varying interest rates. 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.

The City has pledged future revenues, net of operating expenses, to repay OWDA and OPWC loans in the wastewater fund. The debt is payable solely from net revenues and is payable through 2024. Annual principal and interest payments on the debt issues are expected to require about 68 percent of net revenues and less than 31 percent of total revenues. The total principal and interest remaining to be paid on the debt is \$23,479,346. The amount of principal and interest paid in the current year was \$2,510,341. Net revenues available were \$3,678,643 and total revenues were \$8,172,336.

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

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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 that began January 1, 2011.

Lines of credit have been established with the Ohio Public Works Commission in the amount of \$3,386,559, and with the Ohio Water Development Authority in the amount of \$3,688,070, for various road and wastewater projects. Since the loan repayment schedules have not yet been finalized, repayment schedules for these loans are not included in the schedule of debt service requirements. Until final repayment schedules are available, the City will pay based on estimates.

The balances of these loans are as follows:

	Balance December 31, 2014	Lines of Credit
Governmental Activities:		
<i>OPWC Loans:</i>		
Hankins Road	\$559,562	\$1,171,105
9th St. Improvement	393,762	1,074,690
Total Governmental Activities	953,324	2,245,795
Business-Type Activities:		
<i>OWDA Loan:</i>		
WWTP Nutrient Removal Upgrade Design	1,111,902	3,688,070
<i>OPWC Loan:</i>		
Levee Infrastructure Improvement	1,130,748	1,140,764
Total Business-Type Activities	2,242,650	4,828,834
Total Loans Not Finalized	\$3,195,974	\$7,074,629

The City's overall debt margin was \$32,923,326 and the unvoted legal debt margin was \$6,993,939 at December 31, 2014. Principal and interest requirements to retire the long-term obligations outstanding at December 31, 2014, are as follows:

	Governmental Activities					
	General Obligation Bonds					
	Serial Bonds		Term Bonds		Capital Appreciation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$820,000	\$798,283	\$0	\$0	\$45,479	\$79,521
2016	910,000	745,259	0	0	84,072	105,928
2017	1,025,000	711,782	0	0	60,644	79,356
2018	1,110,000	670,357	0	0	55,807	84,193
2019	940,000	625,852	135,000	58,881	0	0
2020-2024	5,160,000	2,518,811	775,000	207,405	0	0
2025-2029	5,235,000	1,397,950	545,000	45,582	0	0
2030-2031	2,500,000	185,970	0	0	0	0
Totals	\$17,700,000	\$7,654,264	\$1,455,000	\$311,868	\$246,002	\$348,998

(continued)

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

Governmental Activities (continued)			
	OPWC Loan	HUD Section 108 Loan	
	Principal	Principal	Interest
2015	\$24,631	\$95,000	\$43,673
2016	24,632	105,000	41,583
2017	24,632	110,000	38,790
2018	24,632	120,000	35,589
2019	24,632	965,000	31,845
2020-2024	123,155	0	0
2025-2027	38,027	0	0
Totals	\$284,341	\$1,395,000	\$191,480

Business-Type Activities			
	OWDA Loans		OPWC Loan
	Principal	Interest	Principal
2015	\$2,216,427	\$288,627	\$2,873
2016	2,247,264	257,790	2,873
2017	2,278,598	226,457	2,873
2018	2,310,437	194,617	2,873
2019	2,342,794	162,262	2,873
2020-2024	10,524,440	343,438	14,366
2025-2029	0	0	14,366
2030-2034	0	0	14,366
2035-2039	0	0	14,366
2040-2044	0	0	14,366
Totals	\$21,919,960	\$1,473,191	\$86,195

Note 16 – Leases

Operating Lease

In 2014, the City entered into an operating lease with American Financial Network, Incorporated, for check processing equipment. The City paid \$6,964 in principal and \$0 in interest on the lease in 2014. The following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2014:

Fiscal	
Year	Principal
2015	\$6,964
2016	6,964
Total	\$13,928

Capital Leases

In 2013, the City entered into several lease agreements for two copiers, two police cruisers, an ambulance, and for a truck with a sewer cleaner. The assets acquired through the capital leases were capitalized at the present value of the minimum lease payments, plus the value of vehicle trade-ins, at the time the leases were entered into, except for the two copiers, which were less than the capitalization threshold.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

The assets acquired through the capital leases are as follows:

	Governmental Activities			Business-Type Activities
	Police Cruisers	Ambulance	Total	Sewer Cleaner
Asset:				
Vehicles	\$54,625	\$112,710	\$167,335	\$290,977
Less: Accumulated depreciation	(10,925)	(11,271)	(22,196)	(38,797)
Total	<u>\$43,700</u>	<u>\$101,439</u>	<u>\$145,139</u>	<u>\$252,180</u>

The leases provide for minimum, annual lease payments as follows:

	Governmental Activities				Business-Type Activities
	Copiers	Police Cruisers	Ambulance	Total	Sewer Cleaner
2015	\$2,247	\$19,104	\$30,043	\$51,394	\$45,350
2016	2,247	0	30,042	32,289	45,350
2017	2,247	0	0	2,247	45,350
2018	1,498	0	0	1,498	45,349
Total Minimum Lease Payment	8,239	19,104	60,085	87,428	181,399
Less: Amount Representing Interest	(704)	(910)	(3,783)	(5,397)	(10,835)
Present Value of Minimum Lease Payment	<u>\$7,535</u>	<u>\$18,194</u>	<u>\$56,302</u>	<u>\$82,031</u>	<u>\$170,564</u>

Note 17 – Interfund Transfers and Balances

Interfund Transfers

During the year ended December 31, 2014, the City made interfund transfers totaling \$1,829,869 from the general fund to the police pension and fire pension special revenue 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.

Interfund Balances

At December 31, 2014, the general fund had an interfund receivable of \$70,000, and the parks and recreation fund had the corresponding interfund payable. The advance was originally made to support operations in the parks and recreation fund. Of the outstanding balance, none is anticipated to be repaid within one year.

Note 18 – Other Employee Benefits

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.

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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.

Insurance

In 2014, the City provided health insurance to its employees through the Health Plan/Hometown. Dental and vision insurance was provided through AFSCME. For 2014, the City's portion of monthly premiums for health insurance for single and for family was \$295.07 and \$1,120.90, respectively, for the HMO plan, and \$354.27 and \$1,281.85, respectively, for the PPO plan. The City's portion of monthly insurance premiums was \$28 for dental insurance and \$8.13 for vision insurance. The City also provides, at no cost to the employees, \$10,000 of term life insurance through the Standard Insurance Company for all employees except police, who receive \$50,000 of term life insurance.

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 amounts of encumbrances expected to be honored upon performance by the vendor in the next year or soon thereafter were as follows:

General	\$288,777
Parks and Recreation	145,905
Other Governmental Funds	230,798
Wastewater	826,511
Total	<u><u>\$1,491,991</u></u>

Note 20 – Abandoned Solid Waste Operation

On October 15, 2012, Council adopted a resolution to cease operations of the solid waste department, effective January 1, 2013. This closure was deemed necessary due to the cost to the City to maintain operations. The City entered into a contract with Kimble Recycling & Disposal, Incorporated, for the solid waste and recycling services, and Kimble Recycling & Disposal, Incorporated, agreed to purchase the City's solid waste vehicles and dumpsters. As a result of the abandoned operations, solid waste employees were transferred to the Street Department. In 2014, the solid waste fund was closed by a transfer of the remaining cash to the general fund.

Note 21 – Fiscal Emergency

In accordance with Section 118.03, Ohio Revised Code, the City was placed in fiscal emergency by the Auditor of State's office on October 8, 2013. The declaration resulted in the establishment of a financial planning and supervision commission. The Commission is composed of a representative of the Office of Budget and Management, a representative of the Treasurer of State, the City mayor, the president of City

City of Massillon, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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 was 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.

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City of Massillon, Ohio
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2014

<u>Federal Grantor/Program Title</u>	<u>Pass-Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Receipts</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>				
<i>(Passed through Ohio Department of Health)</i>				
Special Supplemental Nutrition Program for Women Infants and Children	01-76201FCL389	10.557	\$ <u>127,747</u>	\$ <u>126,683</u>
Total U.S. Department of Agriculture			<u>127,747</u>	<u>126,683</u>
<u>U.S. Department of Housing and Urban Development</u>				
Community Development Block Grants/ Entitlement Grants	B-09-MC-39-0029	14.218	<u>653,723</u>	<u>645,049</u>
<i>(Passed through Stark County HOME Consortium)</i>				
HOME Investment Partnerships Program	M-04-DC-39-0204	14.239	<u>55,356</u>	<u>55,356</u>
Total U.S. Department of Housing and Urban Development			<u>709,079</u>	<u>700,405</u>
<u>U.S. Department of Justice</u>				
<i>(Passed through Ohio Department of Public Safety)</i>				
Violence Against Women Formula Grants	2013-WF-VA2-8225	16.588	<u>43,167</u>	<u>65,168</u>
Total U.S. Department of Justice			<u>43,167</u>	<u>65,168</u>
<u>U.S. Department of Homeland Security</u>				
Staffing for Adequate Fire and Emergency Response	EMW-2012-FV-00662	97.083	<u>715,410</u>	<u>763,904</u>
Total U.S. Department of Homeland Security			<u>715,410</u>	<u>763,904</u>
Total Federal Awards			\$ <u><u>1,595,403</u></u>	\$ <u><u>1,656,160</u></u>

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) reports the City of Massillon, Ohio’s (the “City”) federal award program receipts and expenditures. 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.

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 PROGRAM

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. 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 2014 is as follows:

Beginning loans receivable balance as of January 1, 2014	\$3,296,565
Loans made	-
Loans forgiven	1,877,530
Loan principal repaid	<u>1,400,000</u>
Ending loans receivable balance as of December 31, 2014	\$ 19,035
Cash balance on hand in the revolving loan fund as of December 31, 2014	\$1,400,000

Note: The table above reports loans receivable at gross.

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.

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

INDEPENDENT AUDITORS' REPORT

To the Members of City Council
City of Massillon, Ohio:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, Ohio (the "City") as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 22, 2015 wherein we noted the Auditor of State placed the City in fiscal emergency.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 22, 2015

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133****INDEPENDENT AUDITORS' REPORT**

To the Members of City Council
City of Massillon, Ohio:

Report on Compliance for Each Major Federal Program

We have audited the City of Massillon, Ohio's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

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Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 22, 2015

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued :	unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Noncompliance material to financial statements noted?	none

Federal Awards

Internal Control over major programs:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Type of auditors' report issued on compliance for major programs:	unmodified
Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133?	none
Identification of major programs:	
<i>CFDA 14.218 – Community Development Block Grants/Entitlement Grants</i>	
<i>CFDA 97.083 – Staffing for Adequate Fire and Emergency Response</i>	
Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	no

Section II - Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Schedule of Prior Audit Findings

2013-001 Financial Reporting

During the course of our audit, we identified misstatements in the financial statements that were not initially identified by the City's internal control over financial reporting. A deficiency in internal control exists when the design of operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. In this case, the internal controls over the preparation and review of the City's financial statements did not operate as designed. The City contracts with a third party consultant to prepare its year-end financial statements. While the City may rely on the consultant to provide technical assistance and financial statement preparation, it is still the responsibility of the City to review the financials prepared by the consultant for errors and omissions.

We identified three material misstatements which not only affected the current year financials, but also required restating prior year's fund balance and net position.

In addition to the above adjustments which required restatements to correct prior period errors, five other material audit adjustments were required to fairly state the current year financial statements. These included adjustments to reduce income tax receivable and revenue, to properly record an allowance for doubtful accounts regarding loans receivable, to properly report capital assets and to properly classify accounts and contracts payable.

Status: Corrected

2013-002 Negative Fund Balance

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 2013, the City had a negative cash fund balance in the General Fund of \$328,850.

Status: Corrected

2013-003 Expenditures Limited by Appropriations

Ohio Revised Code Section 5705.41(B) requires that no subdivision or taxing unit is to expend money unless it has been appropriated. At December 31, 2013, expenditures plus outstanding encumbrances exceeded appropriation in the General Fund by \$1,696,759 which was caused by the excess spending within the security of persons and property function by (\$2,052,592).

Status: Corrected



Dave Yost • Auditor of State

CITY OF MASSILLON

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 24, 2015**