

Massillon City School District

**Basic Financial Statements
June 30, 2006**



Mary Taylor, CPA
Auditor of State

Board of Education
Massillon City School District
207 Oak Avenue SE
Massillon, Ohio 44646

We have reviewed the *Independent Auditors' Report* of the Massillon City School District, Stark County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2005 through June 30, 2006. 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.

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 Massillon City School District is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 12, 2007

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Massillon City School District

For The Year Ended June 30, 2006

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Massillon City School District

For The Year Ended June 30, 2006

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Independent Auditors' Report

Board of Education
Massillon City School District
Massillon, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate discretely presented component unit and remaining fund information of the Massillon City School District (the "District") as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the aggregate discretely presented component unit and remaining fund information of the District as of June 30, 2006, and the respective changes in financial position, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended June 30, 2006, the District implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2006, on our consideration of the Massillon City School District'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Education
Massillon City School District

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Cini & Panichi, Inc.

Cleveland, Ohio
December 19, 2006

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The discussion and analysis of the Massillon City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the basic financial statements and notes to the financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities decreased \$4,551,374.
- Revenues for governmental activities totaled \$46,403,985 in 2006. Of this total, \$35,340,665 or approximately 76.2 percent consisted of general revenues, while program revenues accounted for the balance \$11,063,320 or approximately 23.8 percent.
- Total assets of governmental activities decreased by \$5,662,016.
- Total program expenses were \$50,955,359.
- Outstanding debt decreased from \$20,008,848 to \$18,548,860 during 2006.

Using this Annual Report

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

These two statements report the School District's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, Governmental Activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and non instructional services, food service operations and interest and fiscal charges.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 13. Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the general fund.

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for some of its scholarship and foundation programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 18 and 19. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The School District as a Whole

You may recall the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

Table 1
Net Assets
Governmental Activities

	2006	2005
Assets		
Current and Other Assets	\$ 35,144,153	\$ 41,948,831
Capital Assets	43,510,149	42,367,487
<i>Total Assets</i>	78,654,302	84,316,318
Liabilities		
Current Liabilities	21,650,097	20,050,040
Long-term Liabilities		
Due Within One Year	2,139,479	2,175,149
Due in More Than One Year	18,992,814	20,071,330
<i>Total Liabilities</i>	42,782,390	42,296,519
Net Assets		
Invested in Capital Assets, Net of Related Debt	29,357,921	25,258,976
Restricted For:		
Capital Outlay	2,167,804	7,874,856
Debt Service	1,266,958	1,811,195
Other Purposes	852,122	1,392,298
Unrestricted	2,227,107	5,682,474
<i>Total Net Assets</i>	\$ 35,871,912	\$ 42,019,799

Total assets decreased by \$5,662,016. A \$3,669,589 decrease in cash and a \$1,647,653 decrease in taxes receivables makes up this decrease.

Total liabilities decreased by \$485,871. The majority of this decrease was the result of debt payment.

The vast majority of revenues supporting governmental activities are the general revenues. General revenue totaled \$35,340,665, which is approximately 76.2 percent of total revenue. The most significant portions of the general revenue are the intergovernmental section, which is approximately 44.2 percent of total revenue. The intergovernmental revenues consist of state foundation, Ohio School Facilities Commission grant, homestead and rollback, and personal property tax exemption. Taxes, including property taxes and income taxes, account for 30.1 percent of total revenues, interest income accounts for 1.6 percent of total revenue, and miscellaneous revenue accounts for .4 percent of total revenues. The remaining amount of revenue received was in the form of program revenues, which equaled \$11,063,320 or 23.8 percent of total revenue.

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 2
Change in Net Assets
Governmental Activities

	2006	2005
Revenues		
Program Revenues		
Charges for Services and Sales	\$ 3,507,513	\$ 3,506,357
Operating Grants and Contributions	7,541,212	7,042,700
Capital Grants and Contributions	14,595	76,660
<i>Total Program Revenues</i>	<u>11,063,320</u>	<u>10,625,717</u>
General Revenues		
Property Taxes	13,900,954	20,207,113
Income Tax	58,529	147,516
Grants and Entitlements	20,474,279	17,577,195
Investment Earnings	732,711	500,514
Miscellaneous	174,192	111,256
<i>Total General Revenues</i>	<u>35,340,665</u>	<u>38,543,594</u>
Total Revenues	<u>46,403,985</u>	<u>49,169,311</u>
Program Expenses		
Instruction:		
Regular	19,102,174	17,069,526
Special	4,614,971	4,668,836
Vocational	2,018,576	2,031,339
Adult/Continuing	39,959	36,486
Other	827,941	557,597
Support Services:		
Pupils	2,827,237	2,711,638
Instructional Staff	1,797,805	1,832,497
Board of Education	97,664	118,257
Administration	3,847,017	3,711,238
Fiscal	1,346,082	1,083,577
Business	179,919	154,842
Operation and Maintenance of Plant	7,416,441	4,963,319
Pupil Transportation	1,464,834	1,376,339
Central	354,611	495,342
Operation of Food Services	1,686,920	1,433,000
Other Non-Instructional Services	255,071	349,523
Extracurricular Activities	1,728,223	1,449,910
Interest and Fiscal Charges	1,349,914	1,336,525
<i>Total Program Expenses</i>	<u>50,955,359</u>	<u>45,379,791</u>
Change in Net Assets	(4,551,374)	3,789,520
Net Assets Beginning of Year (Restated)	<u>40,423,286</u>	<u>36,633,766</u>
Net Assets End of Year	<u>\$ 35,871,912</u>	<u>\$ 40,423,286</u>

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. The School District's revenue growth is mostly dependent upon property tax increases and new construction. Property taxes made up 30.0 percent of revenues for governmental activities for Massillon City School District in fiscal year 2006. Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating cost.

Instruction comprises 52.2 percent of governmental program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 37.9 percent. The remaining 9.9 percent of program expenses is used for other obligations of the School District such as non-instructional services, extracurricular activities and interest and fiscal charges.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Total and Net Cost of Program Services
Governmental Activities

	Total Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2006	Net Cost of Services 2005
Program Expenses				
Instruction:				
Regular	\$ 19,102,174	\$ 17,069,526	\$ (16,273,186)	\$ (12,377,760)
Special	4,614,971	4,668,836	(1,907,327)	(3,516,497)
Vocational	2,018,576	2,031,339	(1,494,860)	(1,532,013)
Adult/Continuing	39,959	36,486	(5,216)	(1,744)
Other	827,941	557,597	(625,490)	(401,854)
Support Services:				
Pupils	2,827,237	2,711,638	(1,919,723)	(2,052,207)
Instructional Staff	1,797,805	1,832,497	(1,222,169)	(1,262,272)
Board of Education	97,664	118,257	(97,664)	(118,257)
Administration	3,847,017	3,711,238	(3,511,170)	(3,375,385)
Fiscal	1,346,082	1,083,577	(1,322,386)	(1,068,839)
Business	179,919	154,842	(179,919)	(154,842)
Operation and Maintenance of Plant	7,416,441	4,963,319	(7,342,665)	(4,890,291)
Pupil Transportation	1,464,834	1,376,339	(1,272,783)	(1,222,509)
Central	354,611	495,342	(338,595)	(494,043)
Operation of Food Services	1,686,920	1,433,000	(35,566)	115,070
Other Non-Instructional Services	255,071	349,523	56,569	(94,007)
Extracurricular Activities	1,728,223	1,449,910	(1,049,975)	(970,099)
Interest and Fiscal Charges	1,349,914	1,336,525	(1,349,914)	(1,336,525)
<i>Total</i>	<u>\$ 50,955,359</u>	<u>\$ 45,379,791</u>	<u>\$ (39,892,039)</u>	<u>\$ (34,754,074)</u>

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The dependence upon tax revenues for governmental activities is apparent. 27.3 percent of expenses are directly supported by local property taxes. Program revenues only account for 21.5 percent of all governmental expenses. Program revenues include charges for services, grants and contributions that are program specific. Surrounding schools with resident students attending Massillon City School District pay the School District \$5,373 per pupil under Ohio's open enrollment plan. The community is the second largest area of support for the Massillon City School District students.

The School District's Funds

Information about the School District's major fund starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$46,142,624 and expenditures of \$52,976,383. The net change in fund balance for the year was \$(6,833,759).

General Fund Budgeting Highlights

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

During the course of fiscal year 2006, the School District amended its general fund budget several times. The most significant amendments occurred due to changes in the expenditure priorities in the buildings. For the general fund, the final budget basis revenue was \$37,078,163 representing a \$1,151,593 increase from the original budget estimate of \$35,926,570. Most of this difference is due to an underestimation of intergovernmental revenues and tuition and fees. The original budget estimate was amended with the June 2006 amended certificate of resources. The School District's general fund unencumbered cash balance at the end of the fiscal year was \$9,620,736.

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the School District had \$43,510,149 invested in land, construction in progress, land improvements, buildings and improvements, furniture and fixtures, and vehicles. Table 4 shows fiscal 2006 values compared to 2005. More detailed information is presented in Note 7 of the notes to the basic financial statements.

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 4
Capital Assets at June 30
(Net of Depreciation)
Governmental Activities

	2006	2005
Land	\$ 3,748,596	\$ 2,335,360
Construction in progress	1,113,962	22,187,431
Land Improvements	3,237,430	3,470,584
Buildings and Improvements	31,835,318	11,793,045
Furniture and Fixtures	3,102,298	2,184,304
Vehicles	472,545	396,763
Totals	\$ 43,510,149	\$ 42,367,487

All capital assets, except land and construction in progress, are reported net of depreciation. As one can see, the main changes in capital assets during the fiscal year occurred in construction in progress. The changes were due primarily to the completion Ohio School Facilities building project.

For fiscal year 2006, Ohio law required school districts to set aside three percent of certain revenues for capital improvements and an additional three percent for textbooks and instructional materials and supplies. For fiscal year 2006, this amounted to \$682,540 for each purpose. The School District had qualifying disbursements exceeding both the capital and maintenance requirement and the textbook and instructional materials and supplies requirement. More detailed information is presented in Note 21 of the notes to the basic financial statements.

Debt

At June 30, 2006, the School District had \$18,064,124 outstanding in general obligation bonds, \$127,502 outstanding in a state vocational school loan and \$357,234 outstanding in a capital lease. Table 5 shows fiscal year 2006 values compared to 2005.

Table 5
Outstanding Debt, at June 30
Governmental Activities

	2006	2005
Capital Lease	\$ 357,234	\$ 409,427
2003 Middle School General Obligation Bonds:		
Serial Bonds	3,010,000	3,230,000
Term Bonds	8,235,000	8,235,000
1994 High School General Obligation Bonds:		
Serial Bonds	1,690,000	3,305,000
Capital Appreciation Bonds	919,678	919,678
Accretion on Capital Appreciation Bonds	4,209,446	3,527,243
1991 State Vocational School Loan	127,502	382,500
Total	\$ 18,548,860	\$ 20,008,848

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Current Issues

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

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

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

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

The concern is that, to meet the requirements of the court, the State may require the redistribution of commercial and industrial property taxes. With 42.1 percent of the taxes for the School District coming from local businesses and industry, one can see the significant impact this change would have on the School District and ultimately, the residential taxpayers. This percentage was taken from the SF-3 report of the Ohio Department of Education, Division of School Finance, Final SF3 fiscal year 2006.

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

Contacting the School District's Financial Management

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

Massillon City School District
Statement of Net Assets
June 30, 2006

	Primary Government	Component Unit
	Governmental Activities	Massillon Digital Academy
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 6,846,594	\$ 0
Cash and Cash Equivalents in Segregated Accounts	0	282,690
Investments in Segregated Accounts	9,274,962	0
Receivables:		
Taxes	17,953,928	0
Accounts	32,572	0
Intergovernmental	739,950	0
Prepaid Items	35,691	0
Inventory Held for Resale	23,878	0
Materials and Supplies Inventory	49,393	0
Deferred Charges	187,185	0
Nondepreciable Capital Assets	4,862,558	169,582
Depreciable Capital Assets, Net	38,647,591	0
<i>Total Assets</i>	<u>78,654,302</u>	<u>452,272</u>
Liabilities		
Accounts Payable	98,565	0
Contracts Payable	540,257	0
Accrued Wages and Benefits	3,540,491	0
Intergovernmental Payable	2,105,150	147,185
Accrued Vacation Payable	24,327	0
Matured Compensated Absences Payable	287,301	0
Deferred Revenue	14,991,791	0
Accrued Interest Payable	62,215	0
Long-Term Liabilities:		0
Due Within One Year	2,139,479	0
Due in More Than One Year	18,992,814	0
<i>Total Liabilities</i>	<u>42,782,390</u>	<u>147,185</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	29,357,921	169,582
Restricted for:		
Capital Outlay	2,167,804	0
Debt Service	1,266,958	0
Other Purposes	852,122	4,911
Unrestricted	2,227,107	130,594
<i>Total Net Assets</i>	<u>\$ 35,871,912</u>	<u>\$ 305,087</u>

See accompanying notes to the basic financial statements.

Massillon City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Unit
					Governmental Activities	Massillon Digital Academy
Governmental Activities						
Instruction:						
Regular	\$ 19,102,174	\$ 2,056,127	\$ 772,861	\$ 0	\$ (16,273,186)	\$ 0
Special	4,614,971	87,218	2,620,426	0	(1,907,327)	0
Vocational	2,018,576	21,678	502,038	0	(1,494,860)	0
Adult Continuing	39,959	0	34,743	0	(5,216)	0
Other	827,941	0	202,451	0	(625,490)	0
Support Services:						
Pupils	2,827,237	3,428	904,086	0	(1,919,723)	0
Instructional Staff	1,797,805	19,999	555,637	0	(1,222,169)	0
Board of Education	97,664	0	0	0	(97,664)	0
Administration	3,847,017	0	335,847	0	(3,511,170)	0
Fiscal	1,346,082	0	23,696	0	(1,322,386)	0
Business	179,919	0	0	0	(179,919)	0
Operation and Maintenance of Plant	7,416,441	1,096	72,680	0	(7,342,665)	0
Pupil Transportation	1,464,834	68,445	109,011	14,595	(1,272,783)	0
Central	354,611	0	16,016	0	(338,595)	0
Operation of Non-instructional Services:						
Food Service Operations	1,686,920	580,255	1,071,099	0	(35,566)	0
Community Services	240,022	0	304,890	0	64,868	0
Other	15,049	0	6,750	0	(8,299)	0
Extracurricular Activities	1,728,223	669,267	8,981	0	(1,049,975)	0
Interest and Fiscal Charges	1,349,914	0	0	0	(1,349,914)	0
<i>Total Primary Government</i>	<u>\$ 50,955,359</u>	<u>\$ 3,507,513</u>	<u>\$ 7,541,212</u>	<u>\$ 14,595</u>	<u>(39,892,039)</u>	<u>0</u>
Component Unit						
Massillon Digital Academy	<u>\$ 216,377</u>	<u>\$ 0</u>	<u>\$ 153,000</u>	<u>\$ 0</u>	<u>0</u>	<u>(63,377)</u>
General Revenues						
Property Taxes Levied for:						
General Purposes					11,790,271	0
Debt Service					1,944,042	0
Other Purposes					166,641	0
Income Taxes					58,529	0
Grants and Entitlements not Restricted to Specific Programs					20,474,279	251,947
Investment Earnings					732,711	835
Miscellaneous					174,192	30
<i>Total General Revenues</i>					<u>35,340,665</u>	<u>252,812</u>
<i>Change in Net Assets</i>					(4,551,374)	189,435
<i>Net Assets Beginning of Year (Restated See Note 3)</i>					<u>40,423,286</u>	<u>115,652</u>
<i>Net Assets End of Year</i>					<u>\$ 35,871,912</u>	<u>\$ 305,087</u>

See accompanying notes to the basic financial statements.

Massillon City School District
Balance Sheet
Governmental Funds
June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 1,459,055	\$ 5,387,539	\$ 6,846,594
Investments in Segregated Accounts	9,274,962	0	9,274,962
Receivables:			
Taxes	15,347,407	2,606,521	17,953,928
Accounts	30,772	1,800	32,572
Interfund	86,079	0	86,079
Intergovernmental	379,739	360,211	739,950
Prepaid Items	35,691	0	35,691
Inventory Held For Resale	0	23,878	23,878
Materials and Supplies Inventory	28,008	21,385	49,393
<i>Total Assets</i>	<u>\$ 26,641,713</u>	<u>\$ 8,401,334</u>	<u>\$ 35,043,047</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 70,602	\$ 27,963	\$ 98,565
Contracts Payable	171,121	369,136	540,257
Accrued Wages and Benefits	2,875,754	664,737	3,540,491
Interfund Payable	0	86,079	86,079
Intergovernmental Payable	1,774,520	330,630	2,105,150
Matured Compensated Absences Payable	266,421	20,880	287,301
Deferred Revenue	14,505,120	2,434,534	16,939,654
State Vocational School Loan Payable	127,502	0	127,502
<i>Total Liabilities</i>	<u>19,791,040</u>	<u>3,933,959</u>	<u>23,724,999</u>
Fund Balances			
Fund Balance:			
Reserved for Encumbrances	892,738	84,869	977,607
Reserved for Property Taxes	1,004,190	202,970	1,207,160
Unreserved, Undesignated, Reported in:			
General Fund	4,953,745	0	4,953,745
Special Revenue Funds	0	1,108,990	1,108,990
Debt Service Fund	0	902,742	902,742
Capital Projects Funds	0	2,167,804	2,167,804
<i>Total Fund Balances</i>	<u>6,850,673</u>	<u>4,467,375</u>	<u>11,318,048</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 26,641,713</u>	<u>\$ 8,401,334</u>	<u>\$ 35,043,047</u>

See accompanying notes to the basic financial statements.

Massillon City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2006*

Total Governmental Fund Balances		\$ 11,318,048
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		43,510,149
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Tuition and Fees	\$ 232,554	
Grants	30,983	
Delinquent Property Taxes	1,673,873	
Income Taxes	<u>10,453</u>	
Total		1,947,863
Bond issuance costs are reported as an expenditure in the funds are allocated as an expense over the life of the bonds on a full accrual basis		
Issuance Costs	226,593	
Accumulated Amortization	<u>(39,408)</u>	
Total		187,185
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(62,215)
Long-term liabilities, including capital leases and compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
General Obligation Bonds	(12,935,000)	
Capital Appreciation Bonds	(919,678)	
Bond Accretion	(4,209,446)	
Compensated Absences	(2,583,433)	
Accrued Vacation Payable	(24,327)	
Capital Leases Payable	<u>(357,234)</u>	
Total		<u>(21,029,118)</u>
 <i>Net Assets of Governmental Activities</i>		 <u>\$ 35,871,912</u>

See accompanying notes to the basic financial statements.

Massillon City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property and Other Local Taxes	\$ 11,458,108	\$ 2,056,767	\$ 13,514,875
Income Taxes	52,123	0	52,123
Intergovernmental	20,529,131	7,419,281	27,948,412
Investment Income	284,031	448,680	732,711
Tuition and Fees	2,165,296	47,099	2,212,395
Extracurricular Activities	0	640,377	640,377
Rentals	80,577	13,910	94,487
Customer Sales and Services	114,686	607,675	722,361
Gifts and Donations	0	50,691	50,691
Miscellaneous	50,318	123,874	174,192
<i>Total Revenues</i>	<u>34,734,270</u>	<u>11,408,354</u>	<u>46,142,624</u>
Expenditures			
Current:			
Instruction:			
Regular	15,759,922	2,286,175	18,046,097
Special	3,320,801	1,273,585	4,594,386
Vocational	1,806,725	72,424	1,879,149
Adult Continuing	0	39,884	39,884
Other	387,103	423,455	810,558
Support Services:			
Pupils	1,963,478	840,273	2,803,751
Instructional Staff	843,143	924,094	1,767,237
Board of Education	97,012	652	97,664
Administration	3,519,467	280,785	3,800,252
Fiscal	1,260,813	86,896	1,347,709
Business	178,178	0	178,178
Operation and Maintenance of Plant	5,944,956	1,241,098	7,186,054
Pupil Transportation	1,455,385	93,753	1,549,138
Central	219,714	130,309	350,023
Operation of Non-Instructional Services:			
Food Service Operations	0	1,658,206	1,658,206
Community Services	0	239,235	239,235
Other	0	15,049	15,049
Extracurricular Activities	706,171	751,715	1,457,886
Capital Outlay	153,336	2,465,424	2,618,760
Debt Service:			
Principal Retirement	52,193	1,835,000	1,887,193
Interest and Fiscal Charges	7,560	642,414	649,974
<i>Total Expenditures</i>	<u>37,675,957</u>	<u>15,300,426</u>	<u>52,976,383</u>
<i>Excess of Revenues (Under) Expenditures</i>	<u>(2,941,687)</u>	<u>(3,892,072)</u>	<u>(6,833,759)</u>
Other Financing Sources (Uses)			
Transfers In	0	408,292	408,292
Transfers Out	(408,292)	0	(408,292)
<i>Total Other Financing Sources (Uses)</i>	<u>(408,292)</u>	<u>408,292</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(3,349,979)	(3,483,780)	(6,833,759)
<i>Fund Balances Beginning of Year</i>	<u>10,200,652</u>	<u>7,951,155</u>	<u>18,151,807</u>
<i>Fund Balances End of Year</i>	<u>\$ 6,850,673</u>	<u>\$ 4,467,375</u>	<u>\$ 11,318,048</u>

See accompanying notes to the basic financial statements.

Massillon City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2006*

Net Change in Fund Balances - Total Governmental Funds \$ (6,833,759)

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

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

Capital Asset Additions	\$ 3,404,291	
Current Year Depreciation	<u>(2,253,800)</u>	
Total		1,150,491

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (7,829)

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

Tuition and Fees	(162,107)	
Grants	30,983	
Delinquent Property Taxes	386,079	
Income Taxes	<u>6,406</u>	
Total		261,361

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The governmental report the effects of premiums and issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Bond Issuance Cost	(9,851)	
Accrued Interest	(7,886)	
Accretion on Capital Appreciation Bonds	<u>(682,203)</u>	
Total		(699,940)

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

Bond Principal	1,835,000	
Capital Leases	<u>52,193</u>	
Total		1,887,193

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

Excess Costs	19,571	
Compensated Absences	(345,802)	
Accrued Vacation Payable	<u>17,340</u>	
Total		<u>(308,891)</u>

Change in Net Assets of Governmental Activities \$ (4,551,374)

See accompanying notes to the basic financial statements.

Massillon City School District
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Fiscal Year Ended June 30, 2006*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property and Other Local Taxes	\$ 15,290,406	\$ 14,106,658	\$ 14,106,658	\$ 0
Income Tax	74,830	83,411	83,411	0
Intergovernmental	18,053,425	20,126,948	20,126,948	0
Investment Income	223,015	248,588	248,588	0
Tuition and Fees	2,175,053	2,191,954	2,191,954	0
Rentals	66,173	73,761	73,761	0
Charges for Services	0	232,511	232,511	0
Contributions and Donations	4,431	4,939	4,939	0
Miscellaneous	39,237	9,393	9,393	0
<i>Total Revenues</i>	<u>35,926,570</u>	<u>37,078,163</u>	<u>37,078,163</u>	<u>0</u>
Expenditures				
Current:				
Instruction:				
Regular	16,593,698	15,373,363	15,373,363	0
Special	3,771,868	3,494,477	3,494,477	0
Vocational	1,915,140	1,774,297	1,774,297	0
Other	419,068	388,249	388,249	0
Support Services:				
Pupils	2,242,457	2,077,542	2,077,542	0
Instructional Staff	915,670	848,330	848,330	0
Board of Education	169,133	156,695	156,695	0
Administration	3,826,546	3,545,134	3,545,134	0
Fiscal	1,443,853	1,337,669	1,337,669	0
Business	173,399	160,647	160,647	0
Operation and Maintenance of Plant	6,870,024	6,364,788	6,364,788	0
Pupil Transportation	1,591,122	1,474,108	1,474,108	0
Central	301,867	279,667	279,667	0
Operation of Non-instructional Services:				
Other				0
Extracurricular Activities	755,019	699,493	699,493	0
Capital Outlay	11,136	10,317	10,317	0
<i>Total Expenditures</i>	<u>41,000,000</u>	<u>37,984,776</u>	<u>37,984,776</u>	<u>0</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(5,073,430)</u>	<u>(906,613)</u>	<u>(906,613)</u>	<u>0</u>
Other Financing Sources (Uses)				
Transfers In				0
Proceeds from Sale of Capital Assets	0	19,005	19,005	0
Refund of Prior Year Expenditures	0	16,665	16,665	0
Advances In	0	402,644	402,644	0
Advances Out	0	(165,355)	(165,355)	0
Transfers Out	0	(408,292)	(408,292)	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>(135,333)</u>	<u>(135,333)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(5,073,430)</u>	<u>(1,041,946)</u>	<u>(1,041,946)</u>	<u>0</u>
<i>Fund Balance Beginning of Year</i>	9,241,288	9,241,288	9,241,288	0
Prior Year Encumbrances Appropriated	1,421,394	1,421,394	1,421,394	0
<i>Fund Balance End of Year</i>	<u>\$ 5,589,252</u>	<u>\$ 9,620,736</u>	<u>\$ 9,620,736</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements.

Massillon City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 25,978	\$ 99,791
Accounts Receivable	0	43
<i>Total Assets</i>	25,978	\$ 99,834
Liabilities		
Accounts Payable	0	\$ 79
Due to Students	0	99,755
<i>Total Liabilities</i>	0	\$ 99,834
Net Assets		
Held in Trust for Scholarships	\$ 25,978	

See accompanying notes to the basic financial statements.

Massillon City School District
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2006

	<u>Scholarship</u>
<i>Net Assets Beginning of Year</i>	<u>\$ 25,978</u>
<i>Net Assets End of Year</i>	<u><u>\$ 25,978</u></u>

See accompanying notes to the basic financial statements.

Massillon City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

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

The School District is located in Stark County and encompasses the entire City of Massillon. It controls the School District’s ten instructional/support facilities, staffed by 271 classified employees, 372 certificated full-time teaching personnel, and 29 administrators, who provide services to 4,465 students and other community members.

Reporting Entity

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

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

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

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

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY

program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school. The Academy is fiscally dependent on the School District for all accounting and fiscal purposes and is, therefore, presented as a component unit of the School District. Financial statements can be obtained from the Massillon Digital Academy, 207 Oak Street, S.E., Massillon, Ohio 44646.

The School District participates in one jointly governed organization and two public entity risk pools. These organizations are the Stark/Portage Area Computer Consortium (SPARCC), the Stark County Schools Council of Governments Health Benefit Plan and the Stark County Schools Council of Government Workers' Compensation Group Rating Plan. They are presented in Notes 18 and 19.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

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

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

B. Fund Accounting

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

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

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

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

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

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 8). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from 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 fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees, and rentals.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Budgetary Process

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

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

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

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

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

During fiscal year 2006, investments were limited to Federal National Mortgage Association notes, Federal Home Loan Bank notes, Federal Home Loan Mortgage Corporation notes, First American Treasury Market, repurchase agreements, certificates of deposit and STAROhio.

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

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2006.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the classroom facilities fund during fiscal year 2006 amounted to \$429,598, which includes \$295,335 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

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

I. Deferred Charges

On the governmental fund statements, bond issuance costs are recorded as an expenditure when incurred. Bond issuance costs are reported as deferred and amortized over the term of the bonds using the straight-line method on the government-wide statements since the results are not significantly different from the effective interest method.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$500. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 Years
Buildings and Improvements	20-50 Years
Furniture and Fixtures	8-20 Years
Vehicles	10-15 Years

K. Interfund Balances

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

L. Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

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

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Net Assets

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

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

O. Fund Balance Reserves

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

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

P. Interfund Activity

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Estimates

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

S. Changes in Accounting Principles

For the year ended June 30, 2006, the School District has implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and Statement No. 47, *Accounting for Termination Benefits*.

Statement No. 42 establishes accounting and financial standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements. At June 30, 2006, none of the School District's net assets were restricted by enabling legislation.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to *all* termination benefits without limitations as to the period of time during which the benefits are offered.

The implementation of these GASB statements did not have an effect on the financial statements of the School District.

NOTE 3: RESTATEMENT OF NET ASSETS

OSFC grant receivable reported at June 30, 2005 has been determined to be in error, as the School District will not be receiving it.

Previously reported net assets at June 30, 2005	\$ 42,019,799
Intergovernmental receivable	(1,596,513)
Restated net assets at July 1, 2005	\$ 40,423,286

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 4: FUND DEFICITS

Fund balances at June 30, 2006, included the following individual fund deficits:

	Deficit
Other Governmental Funds:	
EMIS	\$ 101
Title I	68,036
Pre-School Grants	271
Title VI-R	27,299
Public Pre-School Fund	3,849
DPIA	64
Adult Communication Education	2,901
Vocational Education Enhancement	26
SchoolNet Professional Development Force	16
Ohio Reads	3,523
DPIA	334,142
Drug Free Force	32,055
Carl Perkins Grant	25,367
Miscellaneous Federal Grants	2,611

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

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues and other sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses and other uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 5: BUDGETARY BASIS OF ACCOUNTING (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement on a fund type basis for the general fund.

Net Change in Fund Balance

	<u>General</u>
GAAP Basis	\$ (3,349,979)
Net adjustment for revenue accruals	2,300,776
Fair Value Adjustment for Investments	78,787
Advance In	402,644
Advance Out	(165,355)
Net adjustment for expenditure accruals	725,679
Encumbrances	(1,034,498)
Budget Basis	\$ (1,041,946)

NOTE 6: DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those 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.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and any other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio).

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

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

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

According to State law the School District has no deposit policy for custodial risk beyond the requirements of State Statute, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2006, the District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District.

At fiscal year-end, the carrying amount of the School District's deposits was \$2,444,741, which includes petty cash and cash on-hand in the amount of \$973. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2006, \$2,893,538 of the School District's bank balance of \$3,093,538 was exposed to custodial risk as discussed above, while \$200,000 was covered by Federal Deposit Insurance Corporation. Deposits that are not covered by depository insurance are collateralized with securities held by the pledging financial institution's trust department or agent but not in the School District's name.

Investments

As of June 30, 2006, the School District had the following investment and maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>6 Months or Less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>
Federal National Mortgage Association Notes (FNMA)	\$ 1,858,856	\$ 1,706,600	\$ 152,256	\$ 0
Federal Home Loan Bank Notes	1,963,171	1,762,865	0	200,306
Federal Home Loan Mortgage Corporation Notes (FHLMC)	5,407,635	5,070,545	337,090	0
First American Treasury Market	45,300	45,300	0	0
Repurchase Agreement	1,265,000	1,265,000	0	0
STAROhio	3,262,622	3,262,622	0	0
Total Investments	\$ 13,802,584	\$ 13,112,932	\$ 489,346	\$ 200,306

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

InterestRate Risk As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk The repurchase agreement is unrated. Standard & Poor's has assigned STAROhio an AAA rating. First American Treasury Market, FNMA notes, and FHLMC notes were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services. The School District has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

Concentration of Credit Risk The School District places no limit on the amount the School District may invest in any one issuer. The following table includes the percentage to total of each investment type held by the School District at June 30, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>
Federal National Mortgage Association (FNMA) Notes	\$ 1,858,856	13.47%
Federal Home Loan Bank Notes	1,963,171	14.22%
Federal Home Loan Mortgage Corporation (FHLMC) Notes	5,407,635	39.18%
First American Treasury Market Repurchase Agreement	45,300	0.33%
	1,265,000	9.16%
STAROhio	<u>3,262,622</u>	<u>23.64%</u>
 Total	 <u>\$ 13,802,584</u>	 <u>100.00%</u>

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 7: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance 06/30/05	Additions	Deletions	Balance 06/30/06
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 2,335,360	\$ 1,413,236	\$ 0	\$ 3,748,596
Construction in Progress	22,187,431	615,771	(21,689,240)	1,113,962
<i>Total Capital Assets not being depreciated</i>	<u>24,522,791</u>	<u>2,029,007</u>	<u>(21,689,240)</u>	<u>4,862,558</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	6,012,468	55,100	(2,973)	6,064,595
Buildings and Improvements	25,949,831	21,425,244	0	47,375,075
Furniture and Fixtures	8,765,749	1,415,883	(19,346)	10,162,286
Vehicles	1,888,534	168,297	(121,173)	1,935,658
<i>Total Capital Assets, being depreciated</i>	<u>42,616,582</u>	<u>23,064,524</u>	<u>(143,492)</u>	<u>65,537,614</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(2,541,884)	(285,888)	607	(2,827,165)
Buildings and Improvements	(14,156,786)	(1,382,971)	0	(15,539,757)
Furniture and Fixtures	(6,581,445)	(492,426)	13,883	(7,059,988)
Vehicles	(1,491,771)	(92,515)	121,173	(1,463,113)
<i>Total Accumulated Depreciation</i>	<u>(24,771,886)</u>	<u>(2,253,800) *</u>	<u>135,663</u>	<u>(26,890,023)</u>
<i>Total Capital Assets, being depreciated, net</i>	<u>17,844,696</u>	<u>20,810,724</u>	<u>(7,829)</u>	<u>38,647,591</u>
<i>Governmental Activities Capital Assets, net</i>	<u>\$ 42,367,487</u>	<u>\$ 22,839,731</u>	<u>\$(21,697,069)</u>	<u>\$ 43,510,149</u>

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 7: CAPITAL ASSETS (Continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,528,940
Special	14,125
Vocational	120,029
Adult/Continuing	75
Support Services:	
Pupil	10,729
Instructional Staff	17,593
Administration	21,908
Fiscal	4,206
Business	1,741
Operation and Maintenance of Plant	157,137
Pupil Transportation	76,710
Operation of Non-Instructional Services:	
Operation of Food Services	26,106
Community Services	4,481
Extracurricular Activities	<u>270,020</u>
 Total Depreciation Expense	 <u><u>\$ 2,253,800</u></u>

NOTE 8: PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2006 represents collections of calendar 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State Law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 8: PROPERTY TAXES (Continued)

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Stark County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006 was \$1,004,190 in the general fund, \$189,280 in the bond retirement debt service fund, and \$13,690 in the classroom facilities maintenance special revenue fund.

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

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second		2006 First	
	Half Collections		Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 350,124,890	81.26%	\$ 357,770,310	84.16%
Public Utility Personal	23,018,810	5.34%	24,042,450	5.65%
Tangible Personal Property	57,744,569	13.40%	43,308,427	10.19%
	<u>\$ 430,888,269</u>	<u>100.00%</u>	<u>\$ 425,121,187</u>	<u>100.00%</u>
Tax rate per \$1,000 assessed valuation	<u>\$ 51.70</u>		<u>\$ 49.60</u>	

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 9: RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (rent, student fees and tuition) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All are expected to be received within one year.

NOTE 10: RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted with Indiana Insurance Company for various types of insurance as follows:

Coverage	Amount
General Liability:	
Occurrence	\$ 1,000,000
Aggregate	2,000,000
Umbrella	1,000,000
Buildings and Contents	114,169,572
Automobile Liability	1,000,000

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

B. Employee Health Benefits

The School District participates in the Stark County Schools Council of Governments Health Benefits Program, a shared risk pool (Note 19) to provide employee medical/surgical benefits. The Council is a risk sharing pool created pursuant to State statute for the purpose of carrying out a cooperative program for the provision and administration of health care benefits. The Assembly is the legislative decision-making body of the Council. The Assembly is comprised of the superintendents or executive officers of the members, who have been appointed by the respective governing body of each member.

The intent of the insurance pool is to achieve a reduced, stable and competitive rate for the School District by grouping with other members of the Health Benefits Program. The experience of all participating districts is calculated as one and a common premium rate is applied to all member districts.

Rates are set through an annual calculation process. The School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. For fiscal year 2006 the School District's premiums were \$810.17 for family coverage and \$333.50 for single coverage per employee per month. Dental and vision insurance is also provided by the School District to qualified employees through the Stark County Schools Council of Governments. For fiscal year 2006, the School District's cost was \$104.47 and \$22.17 for family coverage and \$42.35 and \$8.93 for single coverage per employee per month respectively.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 10: RISK MANAGEMENT (Continued)

Claims are paid for all participants regardless of claims flow. Upon termination, all School District claims would be paid without regard to the School District's account balance. The Stark County Schools Council of Government Board of Directors has the right to return monies to an existing school district subsequent to the settlement of all expenses and claims.

C. Workers' Compensation

The School District participates in the Stark County Schools Council of Government Workers' Compensation Group Rating Plan, an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

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

NOTE 11: PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215, or by calling (800) 878-5853. It is also posted on the SERS Website, www.ohsers.org under forms and publications.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by SERS' Retirement Board. The School District's contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$882,528, \$936,840 and \$509,062, respectively; 49 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 11: PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090, or by visiting STRS website at www.strsoh.org.

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

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

For the fiscal year ended June 30, 2006, plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent; 13 percent was the portion to fund pension obligations. Contribution rates are established by State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to DB Plan for the fiscal years ended June 30, 2006, 2005 and 2004 were \$2,728,836, \$2,739,048 and \$2,414,937, respectively; 83 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System of the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement/ State Teachers Retirement System. As of June 30, 2006, all members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 12: POSTEMPLOYMENT BENEFITS

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

Retirees who participated in the DC or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$194,917 for fiscal year 2006.

STRSOhio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status. Premiums may be reduced for retirees whose household income falls below poverty level.

After the allocation for base benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For this fiscal year, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease from 3.43 percent for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. However, the surcharge is capped at 2 percent of each employee's SERS salaries. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for the maintenance of the asset target level for the health care fund. For the School District, the amount to fund health care benefits, including the surcharge, equaled \$339,353 during the 2006 fiscal year.

Net health care costs for the year ending June 30, 2005 (the latest information available), were \$178,221,113. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005 (the latest information available), the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. SERS has 58,123 participants currently receiving health care benefits.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 13: OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Life Insurance

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

NOTE 14: INTERFUND TRANSACTIONS

A. Interfund Transfers

During the fiscal year, the general fund transferred \$254,998 to the bond retirement debt service fund to pay the State Vocational School loan debt payment, and \$153,294 to the athletic and music special revenue fund to cover expenses.

B. Interfund Balances

Interfund Payable	Interfund Receivable
	General
<i>Nonmajor Special Revenue Funds:</i>	
Other Local Grants Fund	\$ 750
Athletic and Music Fund	29,294
Miscellaneous State Grants	24,352
Ohio Reads	3,420
Title I	2,164
Miscellaneous Federal Grants	17,507
Carl Perkins Grant Fund	1,545
Drug-Free Fund	7,047
Total	\$ 86,079

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 14: INTERFUND TRANSACTIONS (Continued)

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

NOTE 15: LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2006 were as follows:

	Outstanding 6/30/2005	Additions	Deductions	Outstanding 6/30/2006	Due in One Year
Governmental Activities					
<i>General Obligation Bonds:</i>					
2003 Middle School Bonds:					
\$3,565,000-2.00-4.00% Serial Bonds	\$ 3,230,000	\$ 0	\$ (220,000)	\$ 3,010,000	\$ 230,000
\$8,235,000-4.75-5.25% Term Bonds	8,235,000	0	0	8,235,000	0
1994 High School Bonds:					
\$17,520,000-2.50-4.80% Serial Bonds	3,305,000	0	(1,615,000)	1,690,000	1,690,000
\$919,678-5.10-5.30% Capital Appreciation Bonds	919,678	0	0	919,678	0
Accretion on Capital Appreciation Bonds	3,527,243	682,203	0	4,209,446	0
<i>Total General Obligation Bonds</i>	19,216,921	682,203	(1,835,000)	18,064,124	1,920,000
Other Long-Term Obligations:					
Capital Leases	409,427	0	(52,193)	357,234	48,392
1991 State Vocational School Loan - 0%	382,500	0	(254,998)	127,502	127,502
Compensated Absences	2,237,631	887,851	(542,049)	2,583,433	43,585
<i>Total General Long-Term Obligations</i>	<u>\$ 22,246,479</u>	<u>\$ 1,570,054</u>	<u>\$(2,684,240)</u>	<u>\$ 21,132,293</u>	<u>\$ 2,139,479</u>

During fiscal year 2004, the School District issued \$11,800,000 in general obligation various purpose improvement bonds to be used to pay off a short-term note. The note was issued with the intent to purchase land and construct a new middle school. The 1994 high school general obligation bonds were used to renovate and improve the high school. In 1991, the State loaned the School District monies for vocational education operating expenses.

The general obligation bonds will be paid from the bond retirement debt service fund. The 1991 State Vocational School loan will be paid from the foundation revenue in the general fund. The 1994 high school general obligation bonds will mature on December 1, 2011 and the 2004 middle school general obligation bonds will mature on December 1, 2025. Compensated absences will be paid from the general fund, the food service, athletics, auxiliary services, public pre-school, Disadvantaged Pupil Impact Aid, Ohio Reads, Title VI-B, Carl Perkins Grant, Title I, Drug Free Schools Grant, Title VI-R and miscellaneous federal grants special revenue funds.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 15: LONG-TERM OBLIGATIONS (Continued)

The 2003 middle school bonds include serial bonds and term bonds. The 1994 high school bonds include serial bonds and capital appreciation bonds. The additions were \$682,203 which represents the annual accretion of discounted interest. The final amount of the capital appreciation bonds will be \$8,785,000.

Fiscal Year Ending June 30,	1994 High School Bonds			
	Serial Bonds		Capital Appreciation Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 1,690,000	\$ 40,560	\$ 0	\$ 0
2008	0	0	238,639	1,521,362
2009	0	0	207,926	1,552,074
2010	0	0	180,835	1,574,164
2011	0	0	156,616	1,598,384
2012-2016	0	0	135,662	1,619,338
2017-2021	0	0	0	0
2022-2026	0	0	0	0
Total	<u>\$ 1,690,000</u>	<u>\$ 40,560</u>	<u>\$ 919,678</u>	<u>\$ 7,865,322</u>

Fiscal Year Ending June 30,	2003 Middle School Bonds				State
	Serial Bonds		Term Bonds		Vocational
	Principal	Interest	Principal	Interest	School Loan
2007	\$ 230,000	\$ 521,140	\$ 0	\$ 0	\$ 127,502
2008	265,000	515,965	0	0	0
2009	280,000	509,340	0	0	0
2010	295,000	500,940	0	0	0
2011	335,000	491,353	0	0	0
2012-2016	1,605,000	1,837,055	475,000	418,288	0
2017-2021	0	0	3,150,000	1,662,512	0
2022-2026	0	0	4,610,000	716,200	0
Total	<u>\$ 3,010,000</u>	<u>\$ 4,375,793</u>	<u>\$ 8,235,000</u>	<u>\$ 2,797,000</u>	<u>\$ 127,502</u>

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 16: CAPITAL LEASES

During 2006, the School District entered into a capitalized lease for a telephone system. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

Capital assts acquired by the leases have been capitalized in the amount of \$459,311. This amount represents the present value of the minimum lease payments at the time of acquisition. Capital lease payments will be reclassified and reflected as debt service expenditures on the fund financial statements for the governmental funds. These expenditures are reflected as \$52,193 expenditures on the budgetary basis in the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2006.

	Fiscal Year Ended June 30	2007	Amount
			\$ 64,427
		2008	64,427
		2009	64,427
		2010	64,427
		2011	64,427
		2012-2013	98,161
			420,296
Less: amount representing interest			63,062
Present value of net minimum lease payments			\$ 357,234

NOTE 17: CONTRACT OBLIGATIONS

As of June 30, 2006, the School District had contractual purchase commitments for the following projects:

	Purchase Commitments	Amount Paid as of 06/30/2006	Amounts Remaining on Contracts
Moisture Guard - New roof at Central Office	\$ 207,370	\$ 0	\$ 207,370
Summit Testing - Soil Testing at Longfellow and Loren Avenue - New Buildings	18,000	0	18,000
Bob Bennett Construction - Demolition at Loren Andrew Avenue - Building	248,490	0	248,490
Cardinal Environment - Asbestos Removal at Longfellow and Loren Andrew Avenue Buildings	159,630	0	159,630
Reese International - Demolition at Longfellow Building	185,100	0	185,100
Sykes Construction - New Middle School	946,818	906,611	40,207
Commercial Group - New Middle School	1,000,685	950,710	49,975
	\$ 2,766,093	\$ 1,857,321	\$ 908,772

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 18: JOINTLY GOVERNED ORGANIZATION

Stark/Portage Area Computer Consortium

The Stark Portage Area Computer Consortium (SPARCC) is a jointly governed organization among 31 school districts, the Stark County Educational Service Center and the Portage County Educational Service Center and the Portage County Education Service Center. The purpose of the organization is to apply modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The legislative and advisory body is the assembly which is comprised of the superintendents of the participating schools. The degree of control exercised by any participating district is limited to its representation on the assembly, which appoints the five-member executive board. The executive board exercises total control over the operation of SPARCC including budgeting, appropriating, contracting and designating management. The executive board consists of five superintendents. All revenues are generated from State funding and an annual fee charged to participating districts. The School District paid \$224,334 to SPARCC during the fiscal year 2006. The Stark County Educational Service Center is the fiscal agent of SPARCC. Financial information can be obtained by writing to the Stark County Educational Service Center, 2100 38th Street NW, Canton, OH 44709-2300.

NOTE 19: PUBLIC ENTITY RISK POOLS

A. Risk Sharing Pool

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

B. Insurance Purchasing Pool

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

NOTE 20: CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the School District at June 30, 2006.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 20: CONTINGENCIES (Continued)

B. Litigation

The School District is party to various legal proceedings. The amount of the liability, if any, cannot be reasonably estimated at this time.

NOTE 21: SET-ASIDE CALCULATIONS

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

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

	Textbooks	Capital Improvements	Totals
Set-Aside Reserve Balance as of June 30, 2005	\$ 0	\$ 0	\$ 0
Current Year Set-Aside Requirement	682,540	682,540	1,365,080
Balance Carried over from Prior Year	(86,312)	0	(86,312)
Qualifying Disbursements	(637,255)	(699,857)	(1,337,112)
Totals	\$ (41,027)	\$ (17,317)	\$ (58,344)
Set-Aside Balance Carried Forward to Future Fiscal Years	\$ (41,027)	\$ 0	
Set-Aside Reserve Balance as of June 30, 2006	\$ 0	\$ 0	

The School District had qualifying disbursements during the fiscal year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement in future years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future years.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 22: RELATED PARTY TRANSACTIONS

During 2006, the School District provided accounting and fiscal services to the Massillon Digital Academy (the "Digital Academy"), a discretely presented component unit of the School District. The School District acts as the Sponsor for the Academy. The School District and the Academy entered into a 5-year sponsorship agreement commencing on the first day of the 2002 academic year whereby terms of the sponsorship were established. Pursuant to this agreement, the School District's treasurer serves as the Academy's fiscal officer. The School District is to be paid an initial payment of \$25,000 and \$150 per student per year for various services by the Academy; however, the School District waived the \$150 per student for fiscal year 2006.

NOTE 23: SUBSEQUENT EVENT

On July 12, 2006, the Massillon City School District sold two allotments of land through public auction. The properties sold for a total of \$560,000. The buildings associated with these properties were demolished by the District in 2005. The closing date on both properties was August 28, 2006.

NOTE 24: MASSILLON DIGITAL ACADEMY

The Massillon Digital Academy (the "Digital Academy") has been determined to be a discrete component unit. The School District Management has determined it is significant; therefore, it has been included as part of the School District's basic financial statements. The Digital Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Massillon Digital Academy, 207 Oak Street S.E., Massillon, Ohio 44646.

A. *Significant Accounting Policies*

Accounting Basis The basic financial statements of the Digital Academy 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 Digital Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Digital Academy has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The Digital Academy's significant accounting policies are described below.

Basis of Presentation Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 24: MASSILLON DIGITAL ACADEMY (Continued)

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

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

Cash and Cash Equivalents Cash held by the Digital Academy is reflected as "Cash and Cash Equivalents with Fiscal Agents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During 2006, the Academy had no investments.

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

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

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

The Digital Academy also participates in the Federal Charter Grant Program through the Ohio Department of Education. Under this program, the Digital Academy was awarded \$150,000 to help defray operating costs. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statements. Amounts awarded under the program for the year ended June 30, 2006 totaled \$153,000.

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

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 24: MASSILLON DIGITAL ACADEMY (Continued)

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

All reported capital assets are depreciated. Capital leases are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Furniture and equipment is depreciated over a period of five to eight years.

Net Assets Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Digital Academy had unrestricted net assets of \$130,594 and \$4,911 of restricted net assets at year end. The Digital Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

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

Extraordinary and Special Items Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the year ended 2006.

B. Deposits

At June 30, 2006 the carrying amount of the Digital Academy's deposits was \$282,690 and the bank balance was \$285,743. At year-end, \$185,743 of the Digital Academy's bank balance was exposed to custodial risk, while \$100,000 was covered by Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 24: MASSILLON DIGITAL ACADEMY (Continued)

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	06/30/05	Additions	Disposals	06/30/06
Furniture	\$ 2,646	\$ 0	\$ 0	\$ 2,646
Computer Equipment	75,292	123,399	0	198,691
Less: Accumulated Depreciation	<u>(4,306)</u>	<u>(27,449)</u>	<u>0</u>	<u>(31,755)</u>
Total Capital Assets, Net	<u>\$ 73,632</u>	<u>\$ 95,950</u>	<u>\$ 0</u>	<u>\$ 169,582</u>

D. Fiscal Officer

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

The Treasurer of Massillon City School District shall perform the following functions while serving as the fiscal officer of the Digital Academy:

- A. Maintain the financial records of the Digital Academy in conformance with generally accepted accounting principles as required by the State Auditor;
- B. Comply with the operating policies recommended by the State Auditor, including those related to the presentation, review, discussion, and approval or rejection of a line item budget and regular reports of current and encumbered expense;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

E. Related Party Transactions

The Digital Academy is a component unit of the Massillon City School District (the "School District"). The School District is the Academy's sponsor. The Digital Academy and the School District entered into a 5-year sponsorship agreement commencing on the first day of the 2002 academic year, whereby terms of the sponsorship were established. Pursuant to this agreement, the School District's treasurer serves as the Digital Academy's fiscal officer. The Digital Academy is required to pay an initial payment of \$25,000 and \$150 per student per year to the School District, from funding provided to the Academy by the Ohio Department of Education pursuant to Section 3314.08 of the Ohio Revised Code. The Sponsor waived the \$150 per student for the year 2006.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 24: MASSILLON DIGITAL ACADEMY (Continued)

F. Management Consulting Contract

The Digital Academy entered into a two-year contract on March 4, 2005, with Stark/Portage Area Computer Consortium (SPARCC) for management consulting services. Under the contract, the following terms were agreed upon:

1. SPARCC shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement the Digital Academy's educational plan and the Digital Academy's assessment and accountability plan.
2. All personnel providing services to the Academy on behalf of SPARCC under the agreement shall be employees of SPARCC and SPARCC shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure, which may be required by law.
3. The technical services provided by SPARCC to the Digital Academy shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
4. In exchange for the services and support (including equipment) provided by SPARCC, the Digital Academy shall pay to SPARCC a fee of \$25,000 for the year 2006.
5. The Digital Academy shall pay to SPARCC \$3,500 per full-time high school student and \$2,500 per full-time K – 8 student enrolled in the Academy per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.

G. Purchased Services

For fiscal year ended June 30, 2006, purchased services expenses were as follows:

Professional and Technical Services	<u><u>\$ 179,741</u></u>
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H. Contingencies

Grants The Digital Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of the management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Digital Academy at June 30, 2006.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 24: MASSILLON DIGITAL ACADEMY (Continued)

Litigation A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state's constitution and state laws. On April 21, 2004 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2004. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2006. Oral argument occurred November 29, 2006. The effect of this suit, if any, on the Digital Academy is not presently determinable.

Full Time Equivalency The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the state, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. This information was not available as of the date of this report. The Digital Academy does not anticipate any significant adjustments to state funding for fiscal year 2006 as a result of such review.

I. Risk Management

The Digital Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended 2006, the Digital Academy contracted with the Indiana Insurance Company through its agent Leonard Insurance Services of Canton, Ohio. Settlements have not exceeded coverage in the prior fiscal years. There has not been a significant reduction in coverage from the prior year.

J. Pension Plans

The Digital Academy has contracted with SPARCC and its Sponsor to provide employee services and to pay those employees. However, these contract services do not relieve the Digital Academy of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of Record and the Digital Academy ultimately responsible for remitting contributions to each of the systems noted below:

1. School Employees Retirement System

SPARCC and the Digital Academy's Sponsor contribute on behalf of the Digital Academy to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 24: MASSILLON DIGITAL ACADEMY (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the Digital Academy is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 10.58 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. The Digital Academy's required contribution for pension obligations for the fiscal year ended June 30, 2006, were paid by SPARCC and the Digital Academy's Sponsor.

2. State Teachers Retirement System of Ohio (STRSOHio)

SPARCC and the Digital Academy's Sponsor contribute on behalf of the Digital Academy to the State Teachers Retirement System of Ohio. STRSOHio is a cost-sharing multiple employer defined benefit pension plan. STRS provides retirement and disability benefits, annual cost-of living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRSOHio issues a publicly available financial report. Additional information or copies of STRS Ohio's 2005 *Comprehensive Annual Financial Report* may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by visiting the STRSOHio website www.strsoh.org.

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation. The Combined Plan offers features of the DC Plan and the DB. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 24: MASSILLON DIGITAL ACADEMY (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1 percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio' public colleges and universities may choose to enroll in either STRSOhio or an alternative retirement plan (ARP) offer by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRSOhio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3 percent of the original base amount.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 24: MASSILLON DIGITAL ACADEMY (Continued)

Plan members were required to contribute 9.3 percent of their annual covered salary through June 30, 2005 and effective July 1, 2005 the member contribution rate increased to 10 percent and the SPARCC and the Digital Academy's sponsor were required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Digital Academy's contributions for pension obligations to STRSOhio for the fiscal year ended June 30, 2006 were paid by SPARCC and the Digital Academy's Sponsor.

K. Post Employment Benefits

SPARCC and the Digital Academy' Sponsor provided comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRSOhio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS).

1. State Teachers Retirement System of Ohio

SPARCC and the Digital Academy' Sponsor provided comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRSOhio). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare B premiums. Pursuant to the Revised Code (R. C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRSOhio. All benefits recipients pay a portion of the health care costs in the form of a monthly premium.

The R.C. grants authority to STRSOhio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRSOhio funds shall be included in the employer contribution rate, currently 1 percent of covered payroll.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.3 billion at June 30, 2005 (the latest information available). For year June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 111,395 eligible benefit recipients.

2. State Employees Retirement System

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

For this period, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For year 2006, the minimum pay had been established at \$27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2006
(Unaudited)

NOTE 24: MASSILLON DIGITAL ACADEMY (Continued)

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Net expenses for health care at June 30, 2005 (the latest information available) were \$178,221,113 and the target level was 150% percent of the projected claims less premium contribution for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected net health costs of \$158,776,151. The number of benefit recipients currently receiving health care benefits is approximately 58,123.

**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***

Board of Education
Massillon City School District
Stark, Ohio

We have audited the financial statements of the governmental activities, each major fund, the aggregate discretely presented component unit and remaining fund information of the Massillon City School District, as of and for the year ended June 30, 2006, which collectively comprise the city's basic financial statements and have issued our report thereon dated December 19, 2006, wherein we noted that the District adopted *Government Accounting Standards Board Statements No. 42, 46, and 47*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Massillon City School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Education
Massillon City School District

Compliance and Other Matters

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

However, in a separate letter to the District's management dated December 19, 2006, we reported other matters related to noncompliance we deemed immaterial

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

Cini & Paricki, Inc.

Cleveland, Ohio
December 19, 2006

**Report on Compliance with Requirements Applicable to
Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133**

Board of Education
Massillon City School District
Chesterland, Ohio

Compliance

We have audited the compliance of the Massillon City School District, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Massillon City School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Massillon City School District's management. Our responsibility is to express an opinion on the Massillon City School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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 Massillon City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Massillon City School District's compliance with those requirements.

In our opinion, the Massillon City School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the Massillon City School District as of and for the year ended June 30, 2006, and have issued our report there on dated December 19, 2006, wherein we noted the District adopted *Government Accounting Standards Board Statements No. 42, 46, 47*.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Massillon City School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Ciuni & Panichi, Inc.

Cleveland, Ohio
December 19, 2006

Massillon City School District

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Non-cash Receipts	Disbursements	Non-Cash Disbursements
U.S. Department of Agriculture: Passed-Through Ohio Department of Education:						
Food Distribution Program	10.550	N/A	\$ -	\$ 123,017	\$ -	\$ 123,017
Nutrition Cluster:						
National School Breakfast	10.553	N/A	145,220	-	145,220	-
National School Lunch Program	10.555	N/A	745,220	-	745,220	-
Total U.S. Department of Agriculture – Nutrition Cluster			890,440	123,017	890,440	123,017
U.S. Department of Education: Passed-Through Ohio Department of Education:						
Adult Basic Education Grant Program	84.002	044354-ABS1-2006	69,485	-	69,485	-
Title I, Part A, ESEA	84.010	044354-C1S1-2006	989,328	-	974,143	-
Title I, Part A, ESEA	84.010	044354-C1SK-2006	45,953	-	45,553	-
Title I, Part A, ESEA	84.010	044354-C1S1-2005	69,008	-	108,384	-
Title I, Part A, ESEA	84.010	044354-C1SK-2005	648	-	3,713	-
Title I, Part A, ESEA	84.010	044354-C1SN-2005	2,790	-	4,334	-
Total Title I, Part A, ESEA			1,107,727	-	1,136,127	-
Special Education Cluster						
Special Education Grants to States	84.027	044354-6BSF-2006	1,166,577	-	1,030,315	-
Special Education Grants to States	84.027	044354-6BSF-2005	52,380	-	102,264	-
Total Special Education Grants to States			1,218,957	-	1,132,579	-
Special Education Preschool Grants	84.173	044354-PGS1-2006	17,723	-	17,723	-
Total Special Education Cluster			1,236,680	-	1,150,302	-
Vocational Education Basic Grants to States						
Vocational Education Basic Grants to States	84.048	044354-20C1-2006	113,365	-	113,365	-
Vocational Education Basic Grants to States	84.048	044354-20C1-2005	6,285	-	13,941	-
Total Vocational Education Basic Grants to States			119,650	-	127,306	-
Title IV, Drug-Free Schools Grant	84.186	044354-TRS1-2006	39,393	-	39,393	-
Title IV, Drug-Free Schools Grant	84.186	044354-DRS1-2005	(1,060)	-	300	-
Total Title IV, Drug-Free Schools Grant			38,333	-	39,693	-
Twenty-First Century Comm Learning Ctr						
Twenty-First Century Comm Learning Ctr	84.287	044354-T1S1-2006	352,424	-	350,060	-
Twenty-First Century Comm Learning Ctr	84.287	044354-T1S1-2005	101,449	-	102,709	-
Kaleidoscope Grant	84.287	044354-T1S1-2006	257,009	-	237,304	-
Kaleidoscope Grant	84.287	044354-T1S1-2005	5,468	-	20,382	-
Total Twenty-First Century Comm Learning Ctr			716,350	-	710,455	-

Continued

The accompanying notes are an integral part of this schedule

Massillon City School District

Schedule of Expenditures of Federal Awards (continued)

For the year ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Number	Receipts	Non-cash Receipts	Disbursements	Non-Cash Disbursements
Title V, Innovative Education Program Strategies	84.298	044354-C2S1-2006	14,492	-	13,166	-
Title V, Innovative Education Program Strategies	84.298	004354-C2S1-2005	(6,091)	-	-	-
Total Title V, Innovative Education Program Strategies			<u>8,401</u>	<u>-</u>	<u>13,166</u>	<u>-</u>
Title II-D Technology Literacy Grant	84.318	044354-TJS1-2006	22,194	-	20,212	-
Title II-D Technology Literacy Grant	84.318	044354-TJS1-2005	(2,490)	-	-	-
Total Title II-D Technology Literacy Grant			<u>19,704</u>	<u>-</u>	<u>20,212</u>	<u>-</u>
Comprehensive School Reform Demonstration	84.332	044354-RFCC-2006	75,019	-	74,520	-
Comprehensive School Reform Demonstration	84.332	044354-RFCC-2005	31,822	-	31,822	-
Comprehensive School Reform Demonstration	84.332	044354-RFS3-2005	13,294	-	13,521	-
Total Comprehensive School Reform Demonstration			<u>120,135</u>	<u>-</u>	<u>119,863</u>	<u>-</u>
Title II-A, Improving Teacher Quality State Grant	84.367	044354-TRS1-2006	276,602	-	266,051	-
Title II-A, Improving Teacher Quality State Grant	84.367	044354-TRS1-2005	-	-	21,256	-
Total Title II-A, Improving Teacher Quality State Grant			<u>276,602</u>	<u>-</u>	<u>287,307</u>	<u>-</u>
Hurricane Education Recovery Grant	84.938	N/A	4,000	-	2,052	-
Total U.S. Department of Education			<u>3,717,067</u>	<u>-</u>	<u>3,675,968</u>	<u>-</u>
U.S. Department of Health and Human Services Passed through the Ohio Department of Mental Retardation and Developmental Disabilities						
Medical Assistance Program (CAFS)	93.778	N/A	56,875	-	32,048	-
Total Expenditures of Federal Awards			<u>\$ 4,664,382</u>	<u>\$ 123,017</u>	<u>\$ 4,598,456</u>	<u>\$ 123,017</u>

The accompanying notes are an integral part of this schedule

Massillon City School District

Notes to the Schedule of Expenditures of Federal Awards

June 30, 2006

Note 1: Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Non-Cash Support

Child Nutrition Cluster

The District receives non-cash support in the form of food subsidies from the National School Lunch Program (“NSLP”), CFDA 10.550 through the U.S. Department of Agriculture. The value of the food subsidies is determined by using the fair market value of the food items as quoted by local food suppliers.

Negative Receipts

The negative receipts for Title IV, Drug-Free Schools Grant CFDA #84.186 in the amount of \$1,060, Title V, Innovative Education Program Strategies CFDA #84.298 in the amount of \$6,091, and Title II-D Technology Literacy Grant CFDA #84.318 in the amount of \$2,490 represent amounts that were transferred or refunded to the State due to expiration of period of availability.

CFDA – Catalog of Federal Domestic Assistance

Massillon City School District

Schedule Of Findings
OMB Circular A-133 Section .505

June 30, 2006

1. Summary of Auditor's Results

(d)(I)(i)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(iii)	Was there any material reported noncompliance at the financial statement level (GAGAS)?	No
(d)(I)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(I)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(I)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(I)(vi)	Are there any reportable findings under Section .501?	No
(d)(I)(vii)	Major Programs	Special Education Cluster, CFDA #84.027 and #84.173, Medical Assistance Program CFDA #93.778
(d)(I)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Others
(d)(I)(ix)	Low Risk Auditee?	Yes

2. Findings Related to the Financial Statements Required to be Reported in Accordance With GAGAS

None

3. Findings For Federal Awards

None

Massillon City School District

Schedule Of Prior Audit Findings
OMB Circular A-133 Section .315(B)

June 30, 2006

None noted.

Massillon City School District

**207 Oak Street, SE
Massillon, Ohio 44646
(330-830-3900)**

**Response To Findings Associated With Audit Conducted
In Accordance With *Government Auditing Standards***

June 30, 2006

None noted.



Mary Taylor, CPA
Auditor of State

MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 26, 2007