

Massillon City School District

**Basic Financial Statements
June 30, 2009**



Mary Taylor, CPA
Auditor of State

Board of Education
Massillon City School District
207 Oak Street 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, 2008 through June 30, 2009. 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

February 3, 2010

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Massillon City School District

For The Year Ended June 30, 2009

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Massillon City School District

For The Year Ended June 30, 2009

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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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Massillon City School District (the "District"), as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2009, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2S to the financial statements, during the year ended June 30, 2009, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Standards*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2009, on our consideration of the 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 on pages 3 through 11 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Cini & Paricki, Inc.

Cleveland, Ohio
December 23, 2009

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009

The discussion and analysis of the Massillon City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2009. 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 2009 are as follows:

- In total, net assets of governmental activities increased \$6,131,199.
- Revenues for governmental activities totaled \$56,476,277 in 2009. Of this total, \$38,698,651 or approximately 69 percent consisted of general revenues, while program revenues accounted for the balance \$17,777,626 or approximately 31 percent.
- Total assets of governmental activities increased by \$4,173,993.
- Total program expenses were \$50,345,078.
- Outstanding debt, excluding capital leases, decreased from \$17,791,857 to \$16,503,631 during 2009 through the payment of debt.

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 and the bond retirement fund are by far the most significant funds.

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 2009?" 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, 2009

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, non-instructional services, food service operations and interest and fiscal charges.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The financial statements of the School District's major funds begins on page 14. Fund financial reports provide detailed information about the School District's major funds. 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 funds are the general fund and bond retirement 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 School District's Fiduciary Responsibilities

The School 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 School 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 School District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 19 and 20. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009

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 2009 compared to 2008:

Table 1
 Net Assets
 Governmental Activities

| | 2009 | 2008 |
|---|---------------|---------------|
| Assets | | |
| Current and Other Assets | \$ 34,596,891 | \$ 34,833,245 |
| Capital Assets, Net | 45,261,650 | 40,851,303 |
| <i>Total Assets</i> | 79,858,541 | 75,684,548 |
| Liabilities | | |
| Current Liabilities | 19,627,845 | 20,371,633 |
| Long-term Liabilities | | |
| Due Within One Year | 4,105,205 | 4,092,833 |
| Due in More Than One Year | 15,451,959 | 16,677,749 |
| <i>Total Liabilities</i> | 39,185,009 | 41,142,215 |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 34,019,963 | 27,592,913 |
| Restricted For: | | |
| Capital Outlay | 1,011,104 | 2,615,766 |
| Debt Service | 2,000,463 | 1,704,028 |
| Set Asides | 210,361 | 12,755 |
| Other Purposes | 2,016,289 | 2,338,030 |
| Unrestricted | 1,415,352 | 278,841 |
| <i>Total Net Assets</i> | \$ 40,673,532 | \$ 34,542,333 |

Total assets increased by \$4,173,993. This increase is mainly due to a reduction in taxes receivable due to the phase out of tangible personal property.

Total liabilities decreased by \$1,957,206. The majority of this decrease was the result of payment of debt.

The vast majority of revenues supporting governmental activities are the general revenues. General revenue totaled \$38,698,651 which is approximately 69 percent of total revenue. The most significant portions of the general revenue are the unrestricted grants and entitlements, which is approximately 40 percent of total revenue. The unrestricted grants and entitlements 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 28 percent of total revenues, interest income accounts and miscellaneous revenue account for less than 1 percent of total revenues. The remaining amount of revenue received was in the form of program revenues, which equaled \$17,777,626 or 31 percent of total revenue. The large increase in capital grants and contributions is due the donation of a \$6,399,200 indoor athletic facility.

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009

Table 2
Change in Net Assets
Governmental Activities

| | 2009 | 2008 |
|------------------------------------|----------------------|----------------------|
| Revenues | | |
| Program Revenues | | |
| Charges for Services and Sales | \$ 3,168,608 | \$ 3,314,183 |
| Operating Grants and Contributions | 8,085,312 | 7,664,467 |
| Capital Grants and Contributions | 6,523,706 | 17,048 |
| <i>Total Program Revenues</i> | <u>17,777,626</u> | <u>10,995,698</u> |
| General Revenues | | |
| Property Taxes | 15,846,054 | 15,900,357 |
| Income Taxes | 62,903 | 34,464 |
| Grants and Entitlements | 22,305,916 | 21,893,493 |
| Investment Earnings | 251,883 | 842,809 |
| Miscellaneous | 230,111 | 271,904 |
| Premium on Notes | 1,784 | 1,510 |
| <i>Total General Revenues</i> | <u>38,698,651</u> | <u>38,944,537</u> |
| Total Revenues | <u>56,476,277</u> | <u>49,940,235</u> |
| Program Expenses | | |
| Instruction: | | |
| Regular | 20,014,521 | 19,650,791 |
| Special | 4,952,758 | 4,835,952 |
| Vocational | 1,914,442 | 1,851,054 |
| Adult/Continuing | 37,495 | 37,574 |
| Student Intervention Services | 478,419 | 569,171 |
| Other | 829,547 | 746,355 |
| Support Services: | | |
| Pupils | 3,004,563 | 3,394,391 |
| Instructional Staff | 1,662,218 | 2,203,615 |
| Board of Education | 215,952 | 319,451 |
| Administration | 3,236,477 | 2,982,845 |
| Fiscal | 1,050,381 | 789,860 |
| Business | 20,035 | 42,366 |
| Operation and Maintenance of Plant | 5,343,165 | 5,537,030 |
| Pupil Transportation | 1,540,999 | 1,677,079 |
| Central | 793,752 | 494,761 |
| Operation of Food Services | 1,684,936 | 1,631,257 |
| Other Non-Instructional Services | 372,403 | 372,734 |
| Extracurricular Activities | 1,889,467 | 1,691,955 |
| Interest and Fiscal Charges | 1,303,548 | 1,529,989 |
| <i>Total Program Expenses</i> | <u>50,345,078</u> | <u>50,358,230</u> |
| Change in Net Assets | 6,131,199 | (417,995) |
| Net Assets Beginning of Year | <u>34,542,333</u> | <u>34,960,328</u> |
| Net Assets End of Year | <u>\$ 40,673,532</u> | <u>\$ 34,542,333</u> |

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009

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 28 percent of revenues for governmental activities for Massillon City School District in fiscal year 2009. 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 56 percent of governmental program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 34 percent. The remaining 10 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 2009 | Total Cost of Services 2008 | Net Cost of Services 2009 | Net Cost of Services 2008 |
|------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|---------------------------------|
| Program Expenses | | | | |
| Instruction: | | | | |
| Regular | \$ 20,014,521 | \$ 19,650,791 | \$ (16,779,234) | \$ (17,097,220) |
| Special | 4,952,758 | 4,835,952 | (1,989,112) | (817,722) |
| Vocational | 1,914,442 | 1,851,054 | (1,400,268) | (1,364,924) |
| Adult/Continuing | 37,495 | 37,574 | 3,913 | (9,150) |
| Student Intervention Services | 478,419 | 0 | (294,495) | 0 |
| Other | 829,547 | 1,315,526 | (610,334) | (1,221,103) |
| Support Services: | | | | |
| Pupils | 3,004,563 | 3,394,391 | (2,419,527) | (2,678,702) |
| Instructional Staff | 1,662,218 | 2,203,615 | (1,228,020) | (1,851,161) |
| Board of Education | 215,952 | 319,451 | (215,952) | (319,451) |
| Administration | 3,236,477 | 2,982,845 | (2,959,867) | (2,982,845) |
| Fiscal | 1,050,381 | 789,860 | (1,037,650) | (773,570) |
| Business | 20,035 | 42,366 | (20,035) | (42,366) |
| Operation and Maintenance of Plant | 5,343,165 | 5,537,030 | (5,164,342) | (5,371,344) |
| Pupil Transportation | 1,540,999 | 1,677,079 | (1,440,944) | (1,602,304) |
| Central | 793,752 | 494,761 | (719,430) | (467,791) |
| Operation of Food Services | 1,684,936 | 1,631,257 | (2,811) | (39,139) |
| Other Non-Instructional Services | 372,403 | 372,734 | (112,865) | (72,562) |
| Extracurricular Activities | 1,889,467 | 1,691,955 | 5,127,069 | (1,121,189) |
| Interest and Fiscal Charges | 1,303,548 | 1,529,989 | (1,303,548) | (1,529,989) |
| Total | \$ 50,345,078 | \$ 50,358,230 | \$ (32,567,452) | \$ (39,362,532) |

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009

The dependence upon tax revenues for governmental activities is apparent. 31 percent of expenses are directly supported by local property taxes. Program revenues only account for 28 percent of all governmental expenses. Program revenues include charges for services, grants and contributions that are program specific. The community is the second largest area of support for the Massillon City School District students.

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$51,981,163 and expenditures of \$51,626,247. The net change in fund balance for the year was \$354,916.

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 2009, 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 \$38,164,925 (including other financing sources) and the original budget revenue was \$37,471,678 (including other financing sources) a decrease of \$693,247. The original budget estimate was amended with the June 2009 amended certificate of resources. The School District's general fund unencumbered cash balance at the end of the fiscal year was \$8,292,736.

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 2009, the School District had \$45,261,650 invested in land, construction in progress, land improvements, buildings and improvements, furniture and fixtures, and vehicles. Table 4 shows fiscal 2009 values compared to 2008. More detailed information is presented in Note 6 of the notes to the basic financial statements.

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009

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

| | 2009 | 2008 |
|----------------------------|---------------|---------------|
| Land | \$ 3,552,636 | \$ 3,552,636 |
| Construction in Progress | 250,757 | 0 |
| Land Improvements | 2,733,185 | 3,042,041 |
| Buildings and Improvements | 35,859,482 | 30,980,411 |
| Furniture and Fixtures | 2,639,452 | 2,964,393 |
| Vehicles | 226,138 | 311,822 |
| Totals | \$ 45,261,650 | \$ 40,851,303 |

All capital assets, except land and construction in progress, are reported net of depreciation.

Senate Bill 345 requires the School District to set aside \$166.95 per pupil of certain general fund revenues in each of two areas, one for the purchase of textbooks and materials related to instruction and the other for capital outlay. For fiscal year 2009, this amounted to \$699,505 for each set aside for Massillon City School District. The School District had qualifying disbursements or offsets exceeding these requirements for textbooks. At June 30, 2009, the School District was required to set aside \$210,361 for the purchase of capital improvements in future fiscal years. More detailed information is presented in Note 20 of the notes to the basic financial statements.

Debt

At June 30, 2009, the School District had \$16,503,631 outstanding in general obligation bonds and bond anticipation note, with \$4,050,000 due within one year. Table 5 shows fiscal year 2009 values compared to 2008. More detailed information regarding the School District is presented in Note 14 of the notes to the basic financial statements.

Table 5
Outstanding Debt, at June 30
Governmental Activities

| | 2009 | 2008 |
|--|---------------|---------------|
| 2003 Middle School General Obligation Bonds: | | |
| Serial Bonds | \$ 2,235,000 | \$ 2,515,000 |
| Term Bonds | 8,235,000 | 8,235,000 |
| 1994 High School General Obligation Bonds: | | |
| Capital Appreciation Bonds | 473,114 | 681,040 |
| Accretion on Capital Appreciation Bonds | 3,560,517 | 4,360,817 |
| Bond Anticipation Note | 2,000,000 | 2,000,000 |
| Total | \$ 16,503,631 | \$ 17,791,857 |

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009

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 a leveling off in residential housing construction. With the current economy basically in a recession and the recent government bailout of AIG, this country has seen a decrease in property valuations. The Board of Education and administration will need to 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 37.14 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 2009.

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.

These student needs will be more readily apparent since the State has implemented a new funding model which is based on grade level membership. The funding will be determined by the number of students per grade level in which the per pupil funding amount depends on that grade level. There are various components to the new funding model. These components are broken down into administrative costs, operations, teaching, etc. Who is to determine if this funding revision is the program that finally resolves the DeRolph lawsuit? Only time will reveal if that is the case. The district has not seen an increase in overall funding due to this new model.

Massillon City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009

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, 2009

| | Primary Government | Component Unit |
|---|----------------------------|---------------------------------|
| | Governmental Activities | Massillon Digital Academy |
| Assets | | |
| Equity in Pooled Cash and Investments | \$ 16,555,468 | \$ 0 |
| Cash and Investments in Segregated Accounts | 0 | 350,540 |
| Receivables: | | |
| Taxes | 16,503,859 | 0 |
| Accounts | 2,931 | 0 |
| Accrued Interest | 13,137 | 0 |
| Intergovernmental | 1,288,376 | 0 |
| Prepaid Items | 30,070 | 0 |
| Inventory Held for Resale | 21,365 | 0 |
| Materials and Supplies Inventory | 24,056 | 0 |
| Deferred Charges | 157,629 | 0 |
| Nondepreciable Capital Assets | 3,803,393 | 0 |
| Depreciable Capital Assets, Net | 41,458,257 | 50,374 |
| <i>Total Assets</i> | <u>79,858,541</u> | <u>400,914</u> |
| Liabilities | | |
| Accounts Payable | 248,299 | 0 |
| Contracts Payable | 225,681 | 0 |
| Accrued Wages and Benefits | 3,991,369 | 0 |
| Intergovernmental Payable | 1,253,016 | 338,525 |
| Accrued Vacation Payable | 19,795 | 0 |
| Matured Compensated Absences Payable | 7,233 | 0 |
| Retainage Payable | 25,076 | 0 |
| Deferred Revenue | 13,761,048 | 0 |
| Accrued Interest Payable | 96,328 | 0 |
| Long-Term Liabilities: | | |
| Due Within One Year | 4,105,205 | 0 |
| Due in More Than One Year | 15,451,959 | 0 |
| <i>Total Liabilities</i> | <u>39,185,009</u> | <u>338,525</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 34,019,963 | 50,374 |
| Restricted for: | | |
| Capital Outlay | 1,011,104 | 0 |
| Debt Service | 2,000,463 | 0 |
| Set Asides | 210,361 | 0 |
| Other Purposes | 2,016,289 | 1,486 |
| Unrestricted | 1,415,352 | 10,529 |
| <i>Total Net Assets</i> | <u>\$ 40,673,532</u> | <u>\$ 62,389</u> |

The accompanying notes are an integral part of the basic financial statements.

Massillon City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2009

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | |
|---|----------------------|--------------------------------------|---|--|--|------------------------------|
| | Expenses | Charges for Services and Sales | Operating Grants, Contributions and Interest | Capital Grants and Contributions | Primary Government | Component Unit |
| | | | | | Governmental Activities | Massillon Digital Academy |
| Governmental Activities | | | | | | |
| Instruction: | | | | | | |
| Regular | \$ 20,014,521 | \$ 1,958,991 | \$ 1,276,296 | \$ 0 | \$ (16,779,234) | \$ 0 |
| Special | 4,952,758 | 66,831 | 2,896,815 | 0 | (1,989,112) | 0 |
| Vocational | 1,914,442 | 24,884 | 489,290 | 0 | (1,400,268) | 0 |
| Adult Continuing | 37,495 | 0 | 41,408 | 0 | 3,913 | 0 |
| Student Intervention Services | 478,419 | 0 | 183,924 | 0 | (294,495) | 0 |
| Other | 829,547 | 0 | 219,213 | 0 | (610,334) | 0 |
| Support Services: | | | | | | |
| Pupils | 3,004,563 | 13,582 | 571,454 | 0 | (2,419,527) | 0 |
| Instructional Staff | 1,662,218 | 0 | 434,198 | 0 | (1,228,020) | 0 |
| Board of Education | 215,952 | 0 | 0 | 0 | (215,952) | 0 |
| Administration | 3,236,477 | 0 | 276,610 | 0 | (2,959,867) | 0 |
| Fiscal | 1,050,381 | 0 | 12,731 | 0 | (1,037,650) | 0 |
| Business | 20,035 | 0 | 0 | 0 | (20,035) | 0 |
| Operation and Maintenance of Plant | 5,343,165 | 30,679 | 58,539 | 89,605 | (5,164,342) | 0 |
| Pupil Transportation | 1,540,999 | 36,910 | 28,244 | 34,901 | (1,440,944) | 0 |
| Central | 793,752 | 0 | 74,322 | 0 | (719,430) | 0 |
| Operation of Non-instructional Services: | | | | | | |
| Food Service Operations | 1,684,936 | 458,952 | 1,223,173 | 0 | (2,811) | 0 |
| Community Services | 372,403 | 0 | 259,538 | 0 | (112,865) | 0 |
| Extracurricular Activities | 1,889,467 | 577,779 | 39,557 | 6,399,200 | 5,127,069 | 0 |
| Interest and Fiscal Charges | 1,303,548 | 0 | 0 | 0 | (1,303,548) | 0 |
| <i>Total Primary Government</i> | <u>\$ 50,345,078</u> | <u>\$ 3,168,608</u> | <u>\$ 8,085,312</u> | <u>\$ 6,523,706</u> | <u>(32,567,452)</u> | <u>0</u> |
| Component Unit | | | | | | |
| Massillon Digital Academy | <u>\$ 602,250</u> | <u>\$ 0</u> | <u>\$ 320,110</u> | <u>\$ 0</u> | <u>0</u> | <u>(282,140)</u> |
| General Revenues | | | | | | |
| Property Taxes Levied for: | | | | | | |
| General Purposes | | | | | 13,116,902 | 0 |
| Debt Service | | | | | 2,567,514 | 0 |
| Other Purposes | | | | | 161,638 | 0 |
| Income Taxes | | | | | 62,903 | 0 |
| Grants and Entitlements not Restricted to Specific Programs | | | | | 22,305,916 | 3,000 |
| Investment Earnings | | | | | 251,883 | 694 |
| Miscellaneous | | | | | 230,111 | 0 |
| Premium on Notes | | | | | 1,784 | 0 |
| <i>Total General Revenues</i> | | | | | <u>38,698,651</u> | <u>3,694</u> |
| <i>Change in Net Assets</i> | | | | | 6,131,199 | (278,446) |
| <i>Net Assets Beginning of Year, Restated</i> | | | | | <u>34,542,333</u> | <u>340,835</u> |
| <i>Net Assets End of Year</i> | | | | | <u>\$ 40,673,532</u> | <u>\$ 62,389</u> |

The accompanying notes are an integral part of the basic financial statements.

Massillon City School District
Balance Sheet
Governmental Funds
June 30, 2009

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|---------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Investments | \$ 9,033,220 | \$ 1,672,607 | \$ 5,604,379 | \$ 16,310,206 |
| Restricted Cash and Investments | 245,262 | 0 | 0 | 245,262 |
| Receivables: | | | | |
| Taxes | 13,725,449 | 2,604,337 | 174,073 | 16,503,859 |
| Accounts | 1,146 | 0 | 1,785 | 2,931 |
| Interfund | 346,975 | 0 | 0 | 346,975 |
| Accrued Interest | 13,137 | 0 | 0 | 13,137 |
| Intergovernmental | 592,945 | 0 | 695,431 | 1,288,376 |
| Prepaid Items | 30,070 | 0 | 0 | 30,070 |
| Inventory Held For Resale | 0 | 0 | 21,365 | 21,365 |
| Materials and Supplies Inventory | 17,126 | 0 | 6,930 | 24,056 |
| <i>Total Assets</i> | <u>\$ 24,005,330</u> | <u>\$ 4,276,944</u> | <u>\$ 6,503,963</u> | <u>\$ 34,786,237</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | \$ 54,315 | \$ 0 | \$ 193,984 | \$ 248,299 |
| Contracts Payable | 78,988 | 0 | 146,693 | 225,681 |
| Accrued Wages and Benefits | 3,284,250 | 0 | 707,119 | 3,991,369 |
| Interfund Payable | 0 | 0 | 346,975 | 346,975 |
| Intergovernmental Payable | 1,085,818 | 0 | 167,198 | 1,253,016 |
| Matured Compensated Absences Payable | 7,233 | 0 | 0 | 7,233 |
| Retainage Payable | 8,777 | 0 | 16,299 | 25,076 |
| Deferred Revenue | 13,239,245 | 2,458,797 | 503,756 | 16,201,798 |
| <i>Total Liabilities</i> | <u>17,758,626</u> | <u>2,458,797</u> | <u>2,082,024</u> | <u>22,299,447</u> |
| Fund Balances | | | | |
| Reserved for Encumbrances | 827,228 | 0 | 196,200 | 1,023,428 |
| Reserved for Bus Purchases | 34,901 | 0 | 0 | 34,901 |
| Reserved for Property Taxes | 751,970 | 145,540 | 12,080 | 909,590 |
| Reserved for Capital Improvements | 210,361 | 0 | 0 | 210,361 |
| Unreserved, Undesignated, Reported in: | | | | |
| General Fund | 4,422,244 | 0 | 0 | 4,422,244 |
| Special Revenue Funds | 0 | 0 | 1,597,873 | 1,597,873 |
| Debt Service Fund | 0 | 1,672,607 | 0 | 1,672,607 |
| Capital Projects Funds | 0 | 0 | 2,615,786 | 2,615,786 |
| <i>Total Fund Balances</i> | <u>6,246,704</u> | <u>1,818,147</u> | <u>4,421,939</u> | <u>12,486,790</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$ 24,005,330</u> | <u>\$ 4,276,944</u> | <u>\$ 6,503,963</u> | <u>\$ 34,786,237</u> |

The accompanying notes are an integral part of the basic financial statements.

Massillon City School District
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2009*

Total Governmental Fund Balances \$ 12,486,790

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 45,261,650

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

| | |
|---------------------------|--------------|
| Tuition and Fees | \$ 254,623 |
| Charge For Services | 80,874 |
| Grants | 341,763 |
| Delinquent Property Taxes | 1,754,255 |
| Income Taxes | <u>9,235</u> |

Total 2,440,750

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>(68,964)</u> |

Total 157,629

Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds. (96,328)

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 | (10,470,000) |
| Capital Appreciation Bonds | (473,114) |
| Bond Accretion | (3,560,517) |
| Bond Anticipation Note | (2,000,000) |
| Compensated Absences | (2,848,088) |
| Accrued Vacation Payable | (19,795) |
| Capital Leases Payable | <u>(205,445)</u> |

Total (19,576,959)

Net Assets of Governmental Activities \$ 40,673,532

The accompanying notes are an integral part of 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, 2009

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|---------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Property and Other Local Taxes | \$ 12,771,431 | \$ 2,509,697 | \$ 156,267 | \$ 15,437,395 |
| Income Taxes | 68,244 | 0 | 0 | 68,244 |
| Intergovernmental | 22,599,034 | 345,718 | 7,887,571 | 30,832,323 |
| Investment Income | 251,883 | 0 | 92,587 | 344,470 |
| Tuition and Fees | 1,443,698 | 0 | 51,403 | 1,495,101 |
| Extracurricular Activities | 0 | 0 | 574,341 | 574,341 |
| Rentals | 30,452 | 0 | 17,019 | 47,471 |
| Customer Sales and Services | 268,570 | 0 | 458,953 | 727,523 |
| Gifts and Donations | 0 | 0 | 222,398 | 222,398 |
| Miscellaneous | 205,095 | 0 | 25,018 | 230,113 |
| <i>Total Revenues</i> | <u>37,638,407</u> | <u>2,855,415</u> | <u>9,485,557</u> | <u>49,979,379</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 16,121,491 | 0 | 2,326,200 | 18,447,691 |
| Special | 3,629,295 | 0 | 1,283,395 | 4,912,690 |
| Vocational | 1,768,450 | 0 | 58,322 | 1,826,772 |
| Adult Continuing | 0 | 0 | 36,520 | 36,520 |
| Student Intervention Services | 212,660 | 0 | 265,759 | 478,419 |
| Other | 656,522 | 0 | 191,175 | 847,697 |
| Support Services: | | | | |
| Pupils | 2,343,803 | 0 | 663,087 | 3,006,890 |
| Instructional Staff | 831,376 | 0 | 847,390 | 1,678,766 |
| Board of Education | 215,952 | 0 | 0 | 215,952 |
| Administration | 2,830,531 | 0 | 344,496 | 3,175,027 |
| Fiscal | 974,902 | 48,252 | 24,561 | 1,047,715 |
| Business | 17,994 | 0 | 0 | 17,994 |
| Operation and Maintenance of Plant | 4,862,696 | 0 | 223,015 | 5,085,711 |
| Pupil Transportation | 1,430,001 | 0 | 44,650 | 1,474,651 |
| Central | 759,239 | 0 | 27,173 | 786,412 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 0 | 0 | 1,669,034 | 1,669,034 |
| Community Services | 0 | 0 | 369,892 | 369,892 |
| Other | 0 | 0 | 0 | 0 |
| Extracurricular Activities | 1,030,346 | 0 | 527,446 | 1,557,792 |
| Capital Outlay | 87,765 | 0 | 203,289 | 291,054 |
| Debt Service: | | | | |
| Principal Retirement | 52,833 | 2,487,926 | 0 | 2,540,759 |
| Interest and Fiscal Charges | 11,594 | 2,147,215 | 0 | 2,158,809 |
| <i>Total Expenditures</i> | <u>37,837,450</u> | <u>4,683,393</u> | <u>9,105,404</u> | <u>51,626,247</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(199,043)</u> | <u>(1,827,978)</u> | <u>380,153</u> | <u>(1,646,868)</u> |
| Other Financing Sources | | | | |
| Energy Conservation Notes Issued | 0 | 2,000,000 | 0 | 2,000,000 |
| Premium on Notes | 0 | 1,784 | 0 | 1,784 |
| <i>Total Other Financing Sources</i> | <u>0</u> | <u>2,001,784</u> | <u>0</u> | <u>2,001,784</u> |
| <i>Net Change in Fund Balances</i> | (199,043) | 173,806 | 380,153 | 354,916 |
| <i>Fund Balances Beginning of Year</i> | <u>6,445,747</u> | <u>1,644,341</u> | <u>4,041,786</u> | <u>12,131,874</u> |
| <i>Fund Balances End of Year</i> | <u>\$ 6,246,704</u> | <u>\$ 1,818,147</u> | <u>\$ 4,421,939</u> | <u>\$ 12,486,790</u> |

The accompanying notes are an integral part of 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, 2009*

Net Change in Fund Balances - Total Governmental Funds \$ 354,916

*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 additions exceeded depreciation in the current period.

| | | |
|---------------------------|--------------|-----------|
| Capital Asset Additions | \$ 6,964,996 | |
| Current Year Depreciation | (2,549,629) | |
| | | |
| Total | | 4,415,367 |

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. (5,020)

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

| | | |
|---------------------------|-----------|--------|
| Tuition and Fees | 129,277 | |
| Charges for Services | 80,874 | |
| Grants | (517,555) | |
| Delinquent Property Taxes | 408,659 | |
| Income Taxes | (5,341) | |
| | | |
| Total | | 95,914 |

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The governmental funds 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 | (9,852) | |
| Accrued Interest | 64,813 | |
| Accretion on Capital Appreciation Bonds | 800,300 | |
| | | |
| Total | | 855,261 |

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 | 487,926 | |
| Anticipation Notes | 2,000,000 | |
| Capital Leases | 52,833 | |
| | | |
| Total | | 2,540,759 |

Proceeds of note transactions are recorded as revenues in the funds, however, on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (2,000,000)

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.

| | | |
|--------------------------|-----------|-----------|
| Compensated Absences | (127,641) | |
| Accrued Vacation Payable | 1,643 | |
| | | |
| Total | | (125,998) |

Change in Net Assets of Governmental Activities \$ 6,131,199

The accompanying notes are an integral part of 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, 2009*

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Property and Other Local Taxes | \$ 12,637,344 | \$ 12,788,121 | \$ 12,788,121 | \$ 0 |
| Income Tax | 94,232 | 96,290 | 96,290 | 0 |
| Intergovernmental | 22,115,943 | 22,599,034 | 22,599,034 | 0 |
| Investment Income | 317,034 | 323,959 | 323,959 | 0 |
| Tuition and Fees | 1,558,249 | 1,592,287 | 1,592,287 | 0 |
| Rentals | 30,297 | 30,959 | 30,959 | 0 |
| Charges for Services | 168,447 | 172,126 | 172,126 | 0 |
| Miscellaneous | 86,253 | 88,137 | 88,137 | 0 |
| <i>Total Revenues</i> | <u>37,007,799</u> | <u>37,690,913</u> | <u>37,690,913</u> | <u>0</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 16,921,461 | 16,905,462 | 16,152,046 | 753,416 |
| Special | 4,129,749 | 4,125,844 | 3,941,970 | 183,874 |
| Vocational | 1,870,631 | 1,868,862 | 1,785,574 | 83,288 |
| Student Intervention Services | 222,790 | 222,580 | 212,660 | 9,920 |
| Other | 641,519 | 640,912 | 612,349 | 28,563 |
| Support Services: | | | | |
| Pupils | 2,554,842 | 2,552,427 | 2,438,674 | 113,753 |
| Instructional Staff | 876,473 | 875,645 | 836,620 | 39,025 |
| Board of Education | 314,625 | 314,328 | 300,319 | 14,009 |
| Administration | 2,982,542 | 2,979,721 | 2,846,926 | 132,795 |
| Fiscal | 1,028,008 | 1,027,036 | 981,265 | 45,771 |
| Business | 28,691 | 28,663 | 27,386 | 1,277 |
| Operation and Maintenance of Plant | 5,355,360 | 5,350,296 | 5,111,853 | 238,443 |
| Pupil Transportation | 1,589,121 | 1,587,618 | 1,516,864 | 70,754 |
| Central | 904,156 | 903,301 | 863,044 | 40,257 |
| Extracurricular Activities | 1,071,996 | 1,070,983 | 1,023,253 | 47,730 |
| Capital Outlay | 170,741 | 170,579 | 162,977 | 7,602 |
| <i>Total Expenditures</i> | <u>40,662,705</u> | <u>40,624,257</u> | <u>38,813,780</u> | <u>1,810,477</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(3,654,906)</u> | <u>(2,933,344)</u> | <u>(1,122,867)</u> | <u>1,810,477</u> |
| Other Financing Sources (Uses) | | | | |
| Proceeds from Sale of Capital Assets | 599 | 612 | 612 | 0 |
| Refund of Prior Year Expenditures | 123,371 | 126,066 | 126,066 | 0 |
| Insurance Recoveries | 339,420 | 500 | 500 | 0 |
| Advances In | 489 | 346,834 | 346,834 | 0 |
| Advances Out | (87,295) | (346,975) | (346,975) | 0 |
| <i>Total Other Financing Sources (Uses)</i> | <u>376,584</u> | <u>127,037</u> | <u>127,037</u> | <u>0</u> |
| <i>Net Change in Fund Balance</i> | <u>(3,278,322)</u> | <u>(2,806,307)</u> | <u>(995,830)</u> | <u>1,810,477</u> |
| <i>Fund Balance Beginning of Year</i> | 8,367,285 | 8,367,285 | 8,367,285 | 0 |
| Prior Year Encumbrances Appropriated | 921,281 | 921,281 | 921,281 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$ 6,010,244</u> | <u>\$ 6,482,259</u> | <u>\$ 8,292,736</u> | <u>\$ 1,810,477</u> |

The accompanying notes are an integral part of the basic financial statements.

Massillon City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009

| | Private Purpose Trust | |
|---------------------------------------|--------------------------|-----------|
| | Scholarship | Agency |
| Assets | | |
| Equity in Pooled Cash and Investments | \$ 29,840 | \$ 95,809 |
| Liabilities | | |
| Due to Students | 0 | \$ 95,809 |
| Net Assets | | |
| Held in Trust for Scholarships | \$ 29,840 | |

The accompanying notes are an integral part of 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, 2009

| | <u>Scholarship</u> |
|-------------------------------------|--------------------|
| Additions | |
| Interest | \$ 1,491 |
| Deductions | |
| Scholarships | 0 |
| <i>Change in Net Assets</i> | 1,491 |
| <i>Net Assets Beginning of Year</i> | 28,349 |
| <i>Net Assets End of Year</i> | \$ 29,840 |

The accompanying notes are an integral part of the basic financial statements.

Massillon City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2009

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 255 classified employees, 345 certificated full-time teaching personnel, and 29 administrators, who provide services to 4,030 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 program, is nonsectarian in its programs, admissions policies, employment practices and all other operations.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY (Continued)

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 Governments Workers' Compensation Group Rating Plan. They are presented in Notes 17 and 18.

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, 2009

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 Districts major funds are 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.

Bond Retirement Debt Service Fund - The bond retirement debt service fund accounts for the accumulation of resources for and the payment of general obligation principal and interest.

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.

C. Measurement Focus

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

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 7). 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.

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, 2009, but which were levied to finance fiscal year 2010 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

F. Cash and Investments

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

During fiscal year 2009, investments were limited to Federal National Mortgage Association notes, Federal Home Loan Bank notes, Federal Home Loan Bank discounts, Federal Home Loan Mortgage Association notes, First American Treasury Market, JP Morgan Chase-Bankers Acceptance, repurchase agreements, a money market, certificates of deposit and STAROhio.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2009.

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 general fund during fiscal year 2009 amounted to \$251,883, which includes \$64,232 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as "equity in pooled cash and investments". 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, 2009, 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.

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.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

| Description | Estimated Lives |
|----------------------------|-----------------|
| 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.

M. Accrued Liabilities and Long-Term Obligations

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

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Long-term bonds, 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. At June 30, 2009, none of the School District's net assets were restricted by enabling legislation. 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, capital improvements, property taxes and bus purchases.

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 2009.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

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. Implementation of New Accounting Policies

For the year ended June 30, 2009, the School District has implemented GASB Statement No. 52, "*Land and Other Real Estate Held as Investments by Endowments,*" GASB Statement No. 55, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,*" and GASB Statement No. 56, "*Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.*"

GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature.

GASB Statement No. 56 incorporates into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards.

Implementation of these GASB Statements did not affect the presentation of the financial statements of the School District.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 3: FUND DEFICITS

Fund balances at June 30, 2009, included the following individual fund deficits:

| | Deficit |
|---------------------------------|----------|
| Nonmajor Special Revenue Funds: | |
| Auxillary Services | \$ 1,835 |
| Management Information Systems | 63 |
| Public Preschool Grants | 109 |
| Ohio Reads | 12,805 |
| Title VI-B | 171,033 |
| DPIA | 296,504 |
| Adult Communication Education | 2,962 |
| Carl Perkins Grant | 141 |
| Title I | 155,986 |
| Drug Free Grants | 5,701 |
| Preschool Grants Handicap | 44 |
| Title VI-R | 44,390 |

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

NOTE 4: 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, 2009

NOTE 4: 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.

| | <u>General</u> |
|---|----------------|
| GAAP Basis | \$ (199,043) |
| Net adjustment for revenue accruals | 163,247 |
| Fair Value Adjustment for Investments | 16,437 |
| Advance In | 346,834 |
| Advance Out | (346,975) |
| Net adjustment for expenditure accruals | (7,021) |
| Encumbrances | (969,309) |
| Budget Basis | \$ (995,830) |

NOTE 5: 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.

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;

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio).
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in any amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

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 uninsured 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 uninsured 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 2009, the School 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 uninsured public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

At fiscal year-end, the carrying amount of the School District's deposits was \$631,656, which includes petty cash and cash on-hand in the amount of \$179. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2009, \$1,259,678 of the School District's bank balance 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, 2009, the School District had the following investments and maturities:

| Investment Type | Fair Value | Investment Maturities | | | |
|--|----------------------|-----------------------|-------------------|---------------------|---------------------|
| | | 6 Months or Less | 7 to 12 Months | 13 to 18 Months | 19 to 24 Months |
| Federal National Mortgage Association (FNMA) Notes | \$ 1,924,488 | \$ 0 | \$ 0 | \$ 1,448,611 | \$ 475,877 |
| Federal Home Loan Bank (FHLB) Notes | 2,329,052 | 325,813 | 678,105 | 0 | 1,325,134 |
| Federal Home Loan Bank (FHLB) Discount | 2,555,978 | 149,865 | 0 | 2,406,113 | 0 |
| Federal Home Loan Mortgage Association (FHLMA) Notes | 2,148,480 | 0 | 0 | 2,148,480 | 0 |
| First American Treasury Market | 199,457 | 199,457 | 0 | 0 | 0 |
| JP Morgan Chase-Bankers Acceptance | 1,247,901 | 1,247,901 | 0 | 0 | 0 |
| Repurchase Agreements | 2,025,000 | 2,025,000 | 0 | 0 | 0 |
| STAROhio | 3,619,105 | 3,619,105 | 0 | 0 | 0 |
| Total Investments | \$ 16,049,461 | \$ 7,567,141 | \$ 678,105 | \$ 6,003,204 | \$ 1,801,011 |

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's investment in repurchase agreements is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the School District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of the securities subject to a repurchase agreement by 2%. The School District has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

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

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

Credit Risk The School District's investments in the federal agency securities that underlie the School District's repurchase agreement were rated Aaa by Moody's Investor Services. Standard & Poor's has assigned STAROhio an AAA rating. First American Treasury Market, FNMA notes, FHLB notes, FHLB discounts and FHLMA notes were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services. The JP Morgan Chase –Bankers Acceptance was rated A-1+ and P-1 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 STAROhio 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, 2009:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Percent of Total</u> |
|--|----------------------|-------------------------|
| Federal National Mortgage Association (FNMA) Notes | \$ 1,924,488 | 11.98% |
| Federal Home Loan Bank (FHLB) Notes | 2,329,052 | 14.51% |
| Federal Home Loan Bank (FHLB) Discount | 2,555,978 | 15.93% |
| Federal Home Loan Mortgage Association (FHLMA) Notes | 2,148,480 | 13.39% |
| First American Treasury Market | 199,457 | 1.24% |
| JP Morgan Chase-Bankers Acceptance | 1,247,901 | 7.78% |
| Repurchase Agreements | 2,025,000 | 12.62% |
| STAROhio | <u>3,619,105</u> | <u>22.55%</u> |
| Total | <u>\$ 16,049,461</u> | <u>100.00%</u> |

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 6: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

| | Balance 06/30/2008 | Additions | Deletions | Balance 06/30/2009 |
|---|-----------------------|----------------------|-------------------|-----------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, Not Being Depreciated:</i> | | | | |
| Land | \$ 3,552,636 | \$ 0 | \$ 0 | \$ 3,552,636 |
| Construction in Progress | 0 | 250,757 | 0 | 250,757 |
| <i>Total Capital Assets Not Being Depreciated</i> | <u>3,552,636</u> | <u>250,757</u> | <u>0</u> | <u>3,803,393</u> |
| <i>Capital Assets, Being Depreciated:</i> | | | | |
| Land Improvements | 6,393,097 | 0 | 0 | 6,393,097 |
| Buildings and Improvements | 48,672,397 | 6,468,902 | 0 | 55,141,299 |
| Furniture and Fixtures | 9,788,529 | 245,337 | (400,605) | 9,633,261 |
| Vehicles | 1,825,618 | 0 | 0 | 1,825,618 |
| <i>Total Capital Assets, Being Depreciated</i> | <u>66,679,641</u> | <u>6,714,239</u> | <u>(400,605)</u> | <u>72,993,275</u> |
| <i>Less Accumulated Depreciation:</i> | | | | |
| Land Improvements | (3,351,056) | (308,856) | 0 | (3,659,912) |
| Buildings and Improvements | (17,691,986) | (1,589,831) | 0 | (19,281,817) |
| Furniture and Fixtures | (6,824,136) | (565,258) | 395,585 | (6,993,809) |
| Vehicles | (1,513,796) | (85,684) | 0 | (1,599,480) |
| <i>Total Accumulated Depreciation</i> | <u>(29,380,974)</u> | <u>(2,549,629) *</u> | <u>395,585</u> | <u>(31,535,018)</u> |
| <i>Total Capital Assets, Being Depreciated, Net</i> | <u>37,298,667</u> | <u>4,164,610</u> | <u>(5,020)</u> | <u>41,458,257</u> |
| <i>Governmental Activities Capital Assets, Net</i> | <u>\$ 40,851,303</u> | <u>\$ 4,415,367</u> | <u>\$ (5,020)</u> | <u>\$ 45,261,650</u> |

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 6: CAPITAL ASSETS (Continued)

* Depreciation expense was charged to governmental functions as follows:

| | |
|--|--------------|
| Instruction: | |
| Regular | \$ 1,552,584 |
| Special | 12,354 |
| Vocational | 103,209 |
| Adult/Continuing | 975 |
| Support Services: | |
| Pupil | 15,234 |
| Instructional Staff | 12,874 |
| Administration | 14,004 |
| Fiscal | 1,353 |
| Business | 2,041 |
| Operation and Maintenance of Plant | 380,480 |
| Pupil Transportation | 65,233 |
| Operation of Non-Instructional Services: | |
| Operation of Food Services | 17,554 |
| Community Services | 20,833 |
| Extracurricular Activities | 350,901 |
| Total Depreciation Expense | \$ 2,549,629 |

NOTE 7: 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 2009 represents collections of calendar 2008 taxes. Real property taxes received in calendar year 2009 were levied after April 1, 2008, on the assessed value listed as of January 1, 2008, 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 2009 represents collections of calendar year 2008 taxes. Public utility real and tangible taxes received in calendar year 2009 became a lien December 31, 2007, were levied after April 1, 2008 and are collected in 2009 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, 2009

NOTE 7: PROPERTY TAXES (Continued)

Tangible personal property tax revenue received during calendar 2009 (other than public utility property) represents the collection of 2009 taxes. Tangible personal property taxes received in calendar year 2009 were levied after April 1, 2009, on the value as of December 31, 2008. Tangible personal property assessments are being phased out. The assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2009 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and communications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunication property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the School District due to the phasing out of the tax. In calendar years 2009-2010, the School District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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, 2009, are available to finance fiscal year 2009 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, 2009 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, 2009 was \$751,970 in the general fund, \$145,540 in the bond retirement debt service fund, and \$12,080 in the classroom facilities maintenance special revenue fund.

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

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 7: PROPERTY TAXES (Continued)

The assessed values upon which the fiscal year 2009 taxes were collected are:

| | <u>2008 Second Half Collections</u> | | <u>2009 First Half Collections</u> | |
|---|---|----------------|--|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/Residential and Other Real Estate | \$ 412,457,460 | 91.95% | \$ 415,265,390 | 95.45% |
| Public Utility Personal | 18,778,830 | 4.19% | 19,806,210 | 4.55% |
| Tangible Personal Property | <u>17,307,553</u> | <u>3.86%</u> | <u>0</u> | <u>0.00%</u> |
| | <u>\$ 448,543,843</u> | <u>100.00%</u> | <u>\$ 435,071,600</u> | <u>100.00%</u> |
| Tax rate per \$1,000 assessed valuation | <u>\$ 49.40</u> | | <u>\$ 49.50</u> | |

NOTE 8: RECEIVABLES

Receivables at June 30, 2009 consisted of taxes, accounts (rent, student fees and tuition), interfund, accrued interest 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 9: 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 2009, the School District contracted with Indiana Insurance Company for various types of insurance as follows:

| <u>Coverage</u> | <u>Amount</u> |
|------------------------|---------------|
| General Liability: | |
| Occurrence | \$ 1,000,000 |
| Aggregate | 2,000,000 |
| Umbrella | 3,000,000 |
| Buildings and Contents | 114,682,698 |
| 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.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 9: RISK MANAGEMENT (Continued)

B. Employee Health Benefits

The School District participates in the Stark County Schools Council of Governments Health Benefits Program, a shared risk pool (Note 18) 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 2009 the School District's premiums were \$1,035.08 for family coverage and \$426.09 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 2009, the School District's cost was \$133.47 and \$28.33 for family coverage and \$54.10 and \$11.40 for single coverage per employee per month, respectively.

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 18). 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.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 10: PENSION PLANS

A. School Employees Retirement System

Plan Description - 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, disability and survivor 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 can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS’ website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - 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 School District’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2009, 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 the SERS’ Retirement Board. The School District’s required contributions for pension obligations to SERS for the years ended June 30, 2009, 2008 and 2007 were \$891,154, \$987,826 and \$1,040,929, respectively; 39 percent has been contributed for fiscal year 2009 and 100 percent for the fiscal years 2008 and 2007.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (“STRS Ohio”), a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio 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 divided by an actuarially determined annuity factor. The DC Plan allows members to allocate their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. 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 DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001 were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 10: PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years of 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.

Funding Policy - For the fiscal year ended June 30, 2009, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2008, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employer contributions. 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 STRS Ohio for the fiscal years ended June 30, 2009, 2008 and 2007 were \$2,773,212, \$2,929,258 and \$2,778,268, respectively; 84 percent has been contributed for fiscal year 2009 and 100 percent for the fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$34,062 made by the School District and \$32,440 made by the plan members.

NOTE 11: POSTEMPLOYMENT BENEFITS

A. State Teachers Retirement System

Plan Description - The School District contributes to the cost sharing multiple employer defined benefits Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the retirement board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for fiscal years ended June 30, 2009, 2008 and 2007 were \$198,087, \$209,233 and \$198,448, respectively.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 11: POSTEMPLOYMENT BENEFITS (Continued)

B. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physician's fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as prescription drug programs. The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permit SERS to fund health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 401(h). For 2009, 4.16 percent of covered payroll was allocated to the Health Care Fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2009, this amount was \$35,800.

Active members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$265,038, \$294,937 and \$246,849, respectively; 39 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2009, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008 and 2007 were \$47,783, \$46,569 and \$49,072, respectively; 39 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

NOTE 12: 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 26 days of vacation per fiscal year, depending upon length of service and position. Vacation days may be accumulated up to a maximum of 26 days. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 12: OTHER EMPLOYEE BENEFITS (Continued)

All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated to a maximum of 313 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 78 days for certified employees and classified employees; the bargaining unit for the secretarial staff (OAPSE 148) has no maximum days for severance payout.

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 13: INTERFUND BALANCES

Interfund balances at June 30, 2009 consist of the following individual fund receivables and payables:

| Interfund Payable | Interfund Receivable General |
|--|------------------------------------|
| <i>Nonmajor Special Revenue Funds:</i> | |
| Miscellaneous State Grants | \$ 9,520 |
| Title I | 198,946 |
| Title V | 2,108 |
| Ohio Reads | 5,719 |
| Drug Free Grants | 24,120 |
| Other Local Grants | 8,000 |
| Public Preschool | 61 |
| IDEA B | 22,923 |
| Miscellaneous Federal Grants | 75,578 |
| Total | \$ 346,975 |

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.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 14: LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2009 were as follows:

| | Outstanding 6/30/2008 | Additions | Deductions | Outstanding 6/30/2009 | Due Within One Year |
|---|--------------------------|--------------|---------------|--------------------------|------------------------|
| Governmental Activities | | | | | |
| <i>General Obligation Bonds:</i> | | | | | |
| 2003 Middle School Bonds: | | | | | |
| \$3,565,000-2.00-4.00% Serial Bonds | \$ 2,515,000 | \$ 0 | \$ (280,000) | \$ 2,235,000 | \$ 295,000 |
| \$8,235,000-4.75-5.25% Term Bonds | 8,235,000 | 0 | 0 | 8,235,000 | 0 |
| 1994 High School Bonds: | | | | | |
| \$919,678-5.10-5.30% Capital Appreciation Bonds | 681,040 | 0 | (207,926) | 473,114 | 180,835 |
| Accretion on Capital Appreciation Bonds | 4,360,817 | 751,774 | (1,552,074) | 3,560,517 | 1,574,165 |
| <i>Total General Obligation Bonds</i> | 15,791,857 | 751,774 | (2,040,000) | 14,503,631 | 2,050,000 |
| Other Long-Term Obligations: | | | | | |
| 2007 Bond Anticipation Note, 6% interest rate , maturing July 2008 | 2,000,000 | 0 | (2,000,000) | 0 | 0 |
| 2008 Bond Anticipation Note, 2.6% interest rate, maturing July 2009 | 0 | 2,000,000 | 0 | 2,000,000 | 2,000,000 |
| Capital Leases | 258,278 | 0 | (52,833) | 205,445 | 55,205 |
| Compensated Absences | 2,720,447 | 297,518 | (169,877) | 2,848,088 | 0 |
| <i>Total General Long-Term Obligations</i> | 20,770,582 | \$ 3,049,292 | \$(4,262,710) | \$ 19,557,164 | \$ 4,105,205 |

1994 School Improvement Bonds

On January 15, 1994 the School District issued \$18,439,678 in voted general obligation bonds, which included serial and capital appreciation (deep discount) bonds in the amount of \$17,520,000 and \$919,678, respectively. The bonds were used to renovate and improve the high school. They were issued for an eighteen year period with final maturities at December 1, 2011.

The capital appreciation bonds will mature December 1, 2007 through December 1, 2011. These bonds were purchased at a discount at the time of issuance and at maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semi-annually, the value of the bond increases. Therefore, as the value increases, the accretion is booked as principal. The maturity amount of the bonds is \$8,785,000. The fiscal year 2009 accretion amount is \$751,774.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

2004 Various Purpose Improvement Bonds

On January 15, 2004, the School District issued \$11,800,000 in voted general obligation bonds, which included serial and term bonds in the amount of \$3,565,000 and \$8,235,000, respectively. The bonds were used to purchase land and construct a new middle school. They were issued for a twenty-two year period with final maturities at December 1, 2025.

On July 30, 2007 the School District issued \$2,000,000 in bond anticipation notes to provide funds for the installations, modifications and remodeling of school buildings to conserve energy. The notes were retired on July 30, 2008.

On July 30, 2008 the School District issued \$2,000,000 in bond anticipation notes to provide funds for the installations, modifications and remodeling of school buildings to conserve energy. The notes were issued for on year, and are backed by the full faith and credit of the School District.

The general obligation bonds will be paid from the bond retirement debt service fund. Capital leases will be paid from the general fund. Compensated absences will be paid from the general fund and the food service fund.

The following is a summary of the School District's annual debt service principal and interest payments on debt outstanding at June 30, 2009:

| Fiscal Year Ending June 30, | 2008 Bond Anticipation Notes | | 2003 Middle School Bonds | | | | 1994 High School Bonds | |
|--------------------------------|------------------------------|------------------|--------------------------|---------------------|---------------------|---------------------|----------------------------|---------------------|
| | | | Serial Bonds | | Term Bonds | | Capital Appreciation Bonds | |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2010 | \$ 2,000,000 | \$ 52,000 | \$ 295,000 | \$ 496,146 | \$ 0 | \$ 0 | \$ 180,835 | \$ 1,574,165 |
| 2011 | 0 | 0 | 335,000 | 485,741 | 0 | 0 | 156,617 | 1,598,384 |
| 2012 | 0 | 0 | 355,000 | 473,740 | 0 | 0 | 135,662 | 1,619,339 |
| 2013 | 0 | 0 | 375,000 | 460,319 | 0 | 0 | 0 | 0 |
| 2014 | 0 | 0 | 425,000 | 444,788 | 0 | 0 | 0 | 0 |
| 2015-2019 | 0 | 0 | 450,000 | 427,288 | 2,200,000 | 1,453,700 | 0 | 0 |
| 2020-2024 | 0 | 0 | 0 | 0 | 3,995,000 | 1,029,658 | 0 | 0 |
| 2025-2026 | 0 | 0 | 0 | 0 | 2,040,000 | 104,500 | 0 | 0 |
| Total | \$ 2,000,000 | \$ 52,000 | \$ 2,235,000 | \$ 2,788,022 | \$ 8,235,000 | \$ 2,587,858 | \$ 473,114 | \$ 4,791,888 |

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 15: CAPITAL LEASES

During 2005, 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 assets 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 support service 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, 2009.

| | | <u>Amount</u> |
|---|------|---------------|
| Fiscal Year Ended June 30, | 2010 | \$ 64,427 |
| | 2011 | 64,427 |
| | 2012 | 64,427 |
| | 2013 | 33,734 |
| | | 227,015 |
| Less: amount representing interest | | 21,570 |
| Present value of net minimum lease payments | | \$ 205,445 |

NOTE 16: CONTRACTUAL COMMITMENTS

As of June 30, 2009, the School District had a contractual purchase commitment for the following project:

| | <u>Purchase Commitment</u> | <u>Amount Paid as of 06/30/2009</u> | <u>Amounts Remaining on Contract</u> |
|---|--------------------------------|---|--|
| Gardiner Trane - High School boiler replacement | \$ 465,530 | \$ 0 | \$ 465,530 |

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 17: 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 \$246,518 to SPARCC during the fiscal year 2009. 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 18: 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 19: 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, 2009.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 19: 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 20: 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.

| | <u>Textbooks</u> | <u>Capital Improvements</u> | <u>Totals</u> |
|---|------------------------|---------------------------------|-----------------------|
| Set-Aside Reserve Balance as of June 30, 2008 | \$ 0 | \$ 12,755 | \$ 12,755 |
| Current Year Set-Aside Requirement | 699,505 | 699,505 | 1,399,010 |
| Balance Carried over from Prior Year | (246,852) | 0 | (246,852) |
| Qualifying Disbursements | <u>(534,897)</u> | <u>(501,899)</u> | <u>(1,036,796)</u> |
| Totals | <u>\$ (82,244)</u> | <u>\$ 210,361</u> | <u>\$ 128,117</u> |
| Set-Aside Balance Carried Forward to Future Fiscal Years | <u>\$ (82,244)</u> | <u>\$ 210,361</u> | |
| Set-Aside Reserve Balance as of June 30, 2009 | <u>\$ 0</u> | <u>\$ 210,361</u> | |

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. The School District did not have qualifying disbursements during the fiscal year that reduced the capital improvements set-aside amount below zero, and is required to establish a fund balance reserve.

NOTE 21: RELATED PARTY TRANSACTIONS

During 2009, 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 2007 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 2009.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 22: SUBSEQUENT EVENT

On July 30, 2009, the District issued \$2 million in Energy Conservation Improvement Notes.

NOTE 23: 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.

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.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 23: MASSILLON DIGITAL ACADEMY (Continued)

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 Investments in Segregated Accounts" 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 2009, 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 several state and federal grant programs. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the grant programs for the years ended June 30, 2009 and 2008 totaled \$3,000 and \$4,486, per year, respectively.

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.

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.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 23: MASSILLON DIGITAL ACADEMY (Continued)

Net Assets Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitation 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 \$10,529 and \$1,486 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 fiscal year ended 2009.

B. Deposits

At June 30, 2009 the carrying amount of the Digital Academy's deposits was \$350,540 and the bank balance was \$617,881. At year-end, all of the Digital Academy's bank balance was covered by Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

| | 06/30/2008 | Additions | Disposals | 06/30/2009 |
|--------------------------------|------------------|--------------------|-------------|------------------|
| Furniture | \$ 2,646 | \$ 0 | \$ 0 | \$ 2,646 |
| Computer Equipment | 198,691 | 0 | 0 | 198,691 |
| Less: Accumulated Depreciation | <u>(111,893)</u> | <u>(39,070)</u> | <u>0</u> | <u>(150,963)</u> |
| Total Capital Assets, Net | <u>\$ 89,444</u> | <u>\$ (39,070)</u> | <u>\$ 0</u> | <u>\$ 50,374</u> |

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 23: MASSILLON DIGITAL ACADEMY (Continued)

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 2007 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 has not requested payment of the \$150 per student since the Academy's inception. The Sponsor realizes that the survival of the Academy's existence rests on the operational funds provided through the State Foundation program.

F. Purchased Services

For fiscal year ended June 30, 2009, purchased services expenses were as follows:

| | |
|-------------------------------------|-------------------|
| Professional and Technical Services | <u>\$ 551,950</u> |
|-------------------------------------|-------------------|

G. 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, 2009.

Massillon City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2009

NOTE 23: MASSILLON DIGITAL ACADEMY (Continued)

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 2009 as a result of such review.

H. 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 2009, the Digital Academy contracted with the Ohio Casualty 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.

I. Restatement of Net Assets

During the year, it was determined by the Academy that intergovernmental payables were understated by \$80,874 at June 30, 2008. As a result, net assets have been restated as follows:

| | |
|--|--------------------------|
| Previously Reported Net Assets, 6/30/08 | \$ 421,709 |
| Restatement of Intergovernmental Payable | <u>(80,874)</u> |
| Restated Net Assets, 7/1/08 | <u><u>\$ 340,835</u></u> |

**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
Massillon, Ohio

We have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Massillon City School District (the "District"), as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 23, 2009, wherein we noted the District implemented GASB Statement No.'s 52, 55 and 56, as disclosed in Note 2. 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2009-1.

Board of Education
Massillon City School District

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above in a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 that are required to be reported under *Government Auditing Standards*.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, Auditor of State's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cini & Parichi, Inc.

Cleveland, Ohio
December 23, 2009

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

Board of Education
Massillon City School District
Massillon, Ohio

Compliance

We have audited the compliance of the Massillon City School District (the “District”), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The 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 District’s management. Our responsibility is to express an opinion on the District’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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 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 District’s compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control over Compliance

The management of the 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 District's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2009, and have issued our report thereon dated December 23, 2009, wherein we noted the District implemented GASB Statement No.'s 52, 55 and 56, as disclosed in Note 2. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the 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 management, the Board of Education, others within the entity, Auditor of State's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cimini & Paricki, Inc.

Cleveland, Ohio
December 23, 2009

Massillon City School District

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2009

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Grant Year | Receipts | Non-cash Receipts | Disbursements | Non-Cash Disbursements |
|---|---------------------|------------|------------------|-------------------|------------------|------------------------|
| U.S. Department of Agriculture: | | | | | | |
| Passed-Through Ohio Department of Education: | | | | | | |
| Nutrition Cluster: | | | | | | |
| School Breakfast Program | 10.553 | 2009 | \$ 221,627 | \$ - | \$ 221,627 | \$ - |
| National School Lunch Program | 10.555 | 2009 | <u>877,752</u> | <u>93,486</u> | <u>877,752</u> | <u>93,486</u> |
| Total U.S. Department of Agriculture | | | <u>1,099,379</u> | <u>93,486</u> | <u>1,099,379</u> | <u>93,486</u> |
| U.S. Department of Education: | | | | | | |
| Passed-Through Ohio Department of Education: | | | | | | |
| Adult Basic Education Grant Program | 84.002 | 2008 | 11,091 | - | 11,091 | - |
| Adult Basic Education Grant Program | 84.002 | 2009 | <u>-</u> | <u>-</u> | <u>68,057</u> | <u>-</u> |
| Total Adult Basic Education Grant Program | | | <u>11,091</u> | <u>-</u> | <u>79,148</u> | <u>-</u> |
| Title I, Part A, ESEA | 84.010 | 2009 | <u>1,258,962</u> | <u>-</u> | <u>1,277,028</u> | <u>-</u> |
| Special Education Cluster: | | | | | | |
| Special Education Grants to States | 84.027 | 2008 | - | - | 72,467 | - |
| Special Education Grants to States | 84.027 | 2009 | <u>1,233,545</u> | <u>-</u> | <u>1,173,293</u> | <u>-</u> |
| Total Special Education Grants to States | | | <u>1,233,545</u> | <u>-</u> | <u>1,245,760</u> | <u>-</u> |
| Special Education Preschool Grants | 84.173 | 2009 | <u>14,871</u> | <u>-</u> | <u>11,871</u> | <u>-</u> |
| Total Special Education Cluster | | | <u>1,248,416</u> | <u>-</u> | <u>1,257,631</u> | <u>-</u> |
| Vocational Education Basic Grants to States | 84.048 | 2008 | 24,256 | - | 24,256 | - |
| Vocational Education Basic Grants to States | 84.048 | 2009 | <u>87,929</u> | <u>-</u> | <u>87,929</u> | <u>-</u> |
| Total Vocational Education Basic Grants to States | | | <u>112,185</u> | <u>-</u> | <u>112,185</u> | <u>-</u> |
| Title IV, Drug-Free Schools Grant | 84.186 | 2008 | - | - | 4,331 | - |
| Title IV, Drug-Free Schools Grant | 84.186 | 2009 | <u>13,713</u> | <u>-</u> | <u>31,659</u> | <u>-</u> |
| Total Title IV, Drug-Free Schools Grant | | | <u>13,713</u> | <u>-</u> | <u>35,990</u> | <u>-</u> |
| Twenty-First Century Community Learning Center | | | | | | |
| Kaleidoscope Grant | 84.287 | 2008 | - | - | 12,885 | - |
| Kaleidoscope Grant | 84.287 | 2009 | <u>311,392</u> | <u>-</u> | <u>301,369</u> | <u>-</u> |
| Total Twenty-First Century Community Learning Center | | | <u>311,392</u> | <u>-</u> | <u>314,254</u> | <u>-</u> |

Continued

Massillon City School District

Schedule of Expenditures of Federal Awards (continued)

For the Year Ended June 30, 2009

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Grant Year | Receipts | Non-cash Receipts | Disbursements | Non-Cash Disbursements |
|---|---------------------|------------|---------------------|-------------------|---------------------|------------------------|
| U.S. Department of Agriculture: Passed-Through Ohio Department of Education: | | | | | | |
| Title V, Innovative Education Program Strategies | 84.298 | 2009 | <u>7,010</u> | <u>-</u> | <u>6,946</u> | <u>-</u> |
| Title II-D Technology Literacy Grant | 84.318 | 2009 | <u>11,872</u> | <u>-</u> | <u>8,106</u> | <u>-</u> |
| Title II-A, Improving Teacher Quality State Grant | 84.367 | 2009 | <u>330,403</u> | <u>-</u> | <u>306,087</u> | <u>-</u> |
| Total U.S. Department of Education | | | <u>4,404,423</u> | <u>-</u> | <u>4,496,754</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 | 2009 | <u>166,111</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Student Intervention TANF Demonstration Project | 93.558 | 2009 | <u>16,477</u> | <u>-</u> | <u>68,171</u> | <u>-</u> |
| Student Intervention TANF Demonstration Project | 93.558 | 2008 | <u>10,459</u> | <u>-</u> | <u>9,103</u> | <u>-</u> |
| Total Student Intervention TANF Demonstration Project | | | <u>26,936</u> | <u>-</u> | <u>77,274</u> | <u>-</u> |
| Total U.S. Department of Health and Human Services | | | <u>193,047</u> | <u>-</u> | <u>77,274</u> | <u>-</u> |
| Total Expenditures of Federal Awards | | | \$ <u>4,597,470</u> | \$ <u>93,486</u> | \$ <u>4,574,028</u> | \$ <u>93,486</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, 2009

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 basic financial statements.

Child Nutrition Cluster

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

Food Donation Program

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

Medical Assistance Program (CAFS)

The District received a CAFS settlement in the amount of \$166,111 during the fiscal year. The amount of the settlement relates to CAFS services provided during prior years.

Massillon City School District

Schedule Of Findings

OMB Circular A-133 Section .505

June 30, 2009

1. Summary of Auditors' Results

| | | |
|--------------|--|--|
| (d)(I)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(I)(ii) | Were there any significant deficiencies reported at the financial statement level (GAGAS)? | Yes |
| (d)(I)(ii) | Were there any material weaknesses reported at the financial statement level (GAGAS)? | No |
| (d)(I)(iii) | Was there any material noncompliance reported at the financial statement level (GAGAS)? | No |
| (d)(I)(iv) | Was there any material weaknesses reported for major federal programs? | No |
| (d)(I)(iv) | Were there any other significant control deficiencies 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 .510? | No |
| (d)(I)(vii) | Major Programs | Special Education Cluster CFDA #84.027 & 84.173 |
| (d)(I)(viii) | Dollar Threshold: Type A/B Programs | Type A: >\$300,000 Type B: All Others |
| (d)(I)(ix) | Low Risk Auditee? | Yes |

Massillon City School District

Schedule Of Findings (continued)
OMB Circular A-133 Section .505

June 30, 2009

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

| Findings | Findings Summary |
|----------|---|
| 2009-1 | <p data-bbox="305 548 852 583"><i>Financial Reporting – Significant Deficiency</i></p> <p data-bbox="305 611 1427 705">Sound financial reporting is the responsibility of the Treasurer and the Board of Education and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.</p> <p data-bbox="305 737 1427 800">The following audit adjustment was made to the financial statements, and where applicable, to the District’s accounting records:</p> <ol data-bbox="370 831 1427 863" style="list-style-type: none"><li data-bbox="370 831 1427 863">1. Adjusted intergovernmental receivable for amounts that were not original recorded. <p data-bbox="305 894 1427 989">The lack of controls over the posting of year-end financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data at year-end.</p> <p data-bbox="305 1020 1427 1209">We recommend the District review their policies and procedures for controls over recording of year-end financial trans actions and over financial reporting to help ensure the information accurately reflects the activity of the District and thereby increasing the reliability of the financial data at year-end. Although the District has contracted a third party to perform their GAAP Conversion, the District’s management needs to review the statements to be sure that all items are being properly recorded.</p> <p data-bbox="305 1241 1427 1304">Officials Response: Management will develop a process to oversee the GAAP process more closely and have better communication with the third party during the conversion process.</p> |

3. Findings for Federal Awards

None.

Massillon City School District

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

June 30, 2009

| Finding No. | Findings Summary | Fully Corrected | Explanation |
|-------------|--|-----------------|-------------|
| 2008-1 | <p><i>Financial Reporting – Significant Deficiency / Material Weakness</i></p> <p>Sound financial reporting is the responsibility of the Treasurer and the Board of Education and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.</p> <p>The following audit adjustments were made to the financial statements, and where applicable, to the District’s accounting records:</p> <ol style="list-style-type: none"> 1. Restated capital assets for a disposal of a building that had not been recorded in a prior period. <p>The lack of controls over the recording of capital asset disposals and capital asset financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data at year-end.</p> <p>We recommend the District review their policies and procedures for controls over disposals of capital assets to help ensure the information accurately reflects the activity of the District and thereby increases the reliability of the financial data at year-end.</p> | No | See 2009-1. |

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Independent Accountants' Report on Applying Agreed-Upon Procedures

Board of Education
Massillon City School District
Massillon, Ohio

To the Board of Education:

Ohio Revised Code Section 117.53 states, “the Auditor of State shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The Auditor of State shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which were agreed to by to by the Board, solely to assist the Board in evaluating whether the Massillon City School District (the “District”) has adopted an anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on November 20, 2007.
2. We read the policy, noting it included the following requirements from Ohio Revised Code Section 3313.666(B):
 - a. A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - b. A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Revised Code Section 3313.666;
 - c. A procedure for reporting prohibited incidents;
 - d. A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - e. A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
 - f. A procedure for documenting any prohibited incident that is reported;
 - g. A procedure for responding to and investigating any reported incident;

To the Board of Education
Massillon City School District

- h. A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- i. A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- j. A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

Cini & Paricki, Inc.

Cleveland, Ohio
December 23, 2009



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
FEBRUARY 23, 2010