



Dave Yost • Auditor of State

**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Massillon City School District
Stark County
930 17th Street N.E.
Massillon, Ohio 44646

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate discretely presented component unit and remaining fund information of Massillon City School District, Stark County, Ohio (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate discretely presented component unit and remaining fund information of Massillon City School District, Stark County, Ohio, as of June 30, 2017, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

April 5, 2018

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Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

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, 2017. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- Net position increased \$5,746,085 during fiscal year 2017 due to changes in components related to GASB 68.
- Capital assets increased \$21,563 during fiscal year 2017.
- During the year, outstanding debt, excluding unamortized premiums and refunding losses, decreased from \$14,213,447 to \$12,964,068 due to the principal payments.

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 School District as a whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Position and Statement of Activities* provide information about the activities of the whole School 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 School District, the general fund is by far the most significant fund.

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While the basic financial statements contain 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 2017?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting 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
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

These two statements report the School District's net position and changes in net position. This change in net position 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 Position* and the *Statement of Activities*, Governmental Activities include the School District's programs and services, including instruction, support services, extracurricular activities, and non instructional services, i.e., food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The major fund financial statements begin on page 16. Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the general fund.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer 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 Position 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 the agency fund. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 21 and 22. 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.

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for fiscal year 2017 compared to fiscal year 2016:

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

Table 1
Net Position

	Governmental Activities	
	2017	2016
Assets		
Current and Other Assets	\$ 64,865,898	\$ 58,290,370
Capital Assets	35,351,124	35,329,561
<i>Total Assets</i>	<u>100,217,022</u>	<u>93,619,931</u>
Deferred Outflows of Resources		
Deferred Charges on Refunding	479,271	534,571
Pension	14,593,811	6,099,573
<i>Total Deferred Outflows of Resources</i>	<u>15,073,082</u>	<u>6,634,144</u>
Liabilities		
Current and Other Liabilities	4,835,865	5,030,702
Long-Term Liabilities:		
Due Within One Year	1,597,777	1,510,060
Due In More Than One Year:		
Net Pension Liability	71,604,559	56,776,151
Other Amounts Due in More Than One Year	15,067,839	16,229,877
<i>Total Liabilities</i>	<u>93,106,040</u>	<u>79,546,790</u>
Deferred Inflows of Resources		
Property Taxes Levied for the Next Year	16,380,952	16,599,744
Pension	553,030	4,603,544
<i>Total Deferred Inflows of Resources</i>	<u>16,933,982</u>	<u>21,203,288</u>
Net Position		
Net Investment in Capital Assets	26,432,534	25,684,761
Restricted	7,316,081	9,349,278
Unrestricted	(28,498,533)	(35,530,042)
<i>Total Net Position</i>	<u>\$ 5,250,082</u>	<u>\$ (496,003)</u>

Under the standards required by GASB 68, the net pension liability equals the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

GASB notes that pension obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer’s promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School District’s statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan’s *change* in net pension liability not accounted for as deferred inflows/outflows of resources. The School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

At year end, capital assets represented 35 percent of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and fixtures and vehicles. Net investments in capital assets were \$26,432,534 at June 30, 2017. These capital assets are used to provide services to students and are not available for future spending. Although the School District’s investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District’s net position, \$7,316,081 represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position is a deficit of \$(28,498,533).

Total assets increased \$6,597,091. Cash balance continued to increase in fiscal year 2017 due to keeping expenses in line and a reduction in capital projects. Also foundation revenue increased \$701,459 in fiscal year 2017, offset by an intergovernmental receivables decrease of \$659,114 due to grants and Medicaid receivable decrease.

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

The increases in net pension liability and deferred outflows of resources, and the decrease in deferred inflows of resources are directly related to GASB Statement No. 68.

Table 2 shows the changes in net position for fiscal year 2017 and 2016.

Table 2
Changes in Net Position

	Governmental Activities	
	2017	2016
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 2,456,532	\$ 2,253,661
Operating Grants	9,539,200	8,761,197
Capital Grants	3,732	547
<i>Total Program Revenues</i>	<u>11,999,464</u>	<u>11,015,405</u>
<i>General Revenues:</i>		
Property Taxes	18,019,541	18,003,511
Income Taxes	9,616	12,361
Grants and Entitlements Not Restricted	27,891,671	27,190,212
Other	253,207	425,907
<i>Total General Revenues</i>	<u>46,174,035</u>	<u>45,631,991</u>
<i>Total Revenues</i>	<u>58,173,499</u>	<u>56,647,396</u>
Program Expenses		
Instruction:		
Regular	22,907,712	20,323,866
Special	6,144,889	5,310,885
Vocational	2,406,930	1,964,699
Adult/Continuing	83	1,973
Student Intervention Services	135,944	93,587
Other	426,643	591,677
Support Services:		
Pupils	3,234,325	2,845,424
Instructional Staff	1,279,663	1,182,843
Board of Education	213,860	149,880
Administration	2,698,521	2,356,919
Fiscal	1,092,549	972,449
Business	6,995	4,764
Operation and Maintenance of Plant	4,396,164	4,547,119
Pupil Transportation	2,053,008	1,602,355
Central	588,767	594,735
Operation of Non-Instructional Services:		
Food Service Operations	1,899,631	1,788,667
Community Services	337,278	342,181
Extracurricular Activities	2,092,182	1,837,914
Debt Service:		
Interest and Fiscal Charges	512,270	558,098
<i>Total Expenses</i>	<u>52,427,414</u>	<u>47,070,035</u>
<i>Increase (Decrease) in Net Position</i>	5,746,085	9,577,361
<i>Net Position at Beginning of Year</i>	<u>(496,003)</u>	<u>(10,073,364)</u>
<i>Net Position at End of Year</i>	<u>\$ 5,250,082</u>	<u>\$ (496,003)</u>

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

Revenues increased in fiscal year 2017 by \$1,526,103. Grants and entitlements increased by \$701,459 primarily due to increased State foundations revenues. Total expenses increased by \$5,357,379 in fiscal year 2017. The largest increase was in regular instruction, which was mainly due to pension expense recorded as required by GASB 68. The increases in instruction, support services and extracurricular expenses were mainly due to raises in salaries during fiscal year 2017.

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
Governmental Activities

	Total Cost of Service		Net Cost of Service	
	2017	2016	2017	2016
Instruction:				
Regular	\$ 22,907,712	\$ 20,323,866	\$ 20,906,106	\$ 18,586,616
Special	6,144,889	5,310,885	1,726,057	1,067,625
Vocational	2,406,930	1,964,699	1,563,256	1,255,074
Adult/Continuing	83	1,973	83	1,973
Student Intervention Services	135,944	93,587	135,944	93,587
Other	426,643	591,677	176,426	297,795
Support Services:				
Pupils	3,234,325	2,845,424	2,943,999	2,557,861
Instructional Staff	1,279,663	1,182,843	1,026,465	511,065
Board of Education	213,860	149,880	213,860	149,880
Administration	2,698,521	2,356,919	2,479,335	2,155,386
Fiscal	1,092,549	972,449	1,092,549	972,449
Business	6,995	4,764	6,995	4,764
Operation and Maintenance of Plant	4,396,164	4,547,119	4,150,306	4,339,299
Pupil Transportation	2,053,008	1,602,355	1,196,532	1,506,980
Central	588,767	594,735	577,967	583,935
Operation of Non-Instructional Services:				
Food Service Operations	1,899,631	1,788,667	41,818	280
Community Services	337,278	342,181	124,233	116,974
Extracurricular Activities	2,092,182	1,837,914	1,553,749	1,294,989
Debt Service:				
Interest and Fiscal Charges	512,270	558,098	512,270	558,098
<i>Total Expenses</i>	\$ 52,427,414	\$ 47,070,035	\$ 40,427,950	\$ 36,054,630

The dependence upon general revenues for governmental activities is apparent. Nearly 77 percent of governmental activities are supported through taxes and grants and entitlements not restricted; such revenues are 79 percent of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

Governmental Funds

Information about the School District's major fund starts on page 16. These funds are accounted for using the modified accrual basis of accounting. The net change in fund balances for the fiscal year was an increase of \$7,301,710 for all governmental funds with the most significant increase in the general fund.

The general fund's net change in fund balance for fiscal year 2017 was an increase of \$2,771,374. The majority of this increase is due to an increase in State foundation revenue along with operational expenditures were less than revenues earned.

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 general fund.

During the course of fiscal year 2017, the School District did amend its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management

The final budget revenues of and other financing sources were \$7,466,861 higher compared to the original budget revenues of \$44,174,811. This increase is due to an underestimation of intergovernmental revenue and transfers in.

For the general fund, actual budget basis revenue and other financing sources was \$50,118,425, which was lower than the final budget basis revenue by \$1,523,247. Most of this difference is due to an overestimation of transfers.

Final expenditure appropriations and other financing uses of \$51,887,899 were \$4,070,867 higher than the actual expenditures of \$47,817,032 as cost savings were recognized in mainly all expenditures except transfers. Final expenditure appropriations were \$13,839,809 higher than original appropriations of \$38,048,090, as expenditures were conservatively budgeted.

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017, the School District had \$35,351,124 invested in capital assets. Table 4 shows fiscal year 2017 balances compared with 2016.

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

	Governmental Activities	
	2017	2016
Land	\$ 3,707,386	\$ 3,707,386
Construction in Progress	179,160	180,000
Land Improvements	684,463	872,103
Buildings and Improvements	25,511,105	26,243,457
Furniture and Fixtures	3,935,840	3,043,654
Vehicles	1,333,170	1,282,961
<i>Totals</i>	<u>\$ 35,351,124</u>	<u>\$ 35,329,561</u>

The \$21,563 increase in capital assets was attributable to acquisitions exceeding depreciation and disposals in the current year. See Note 6 for more information about the capital assets of the School District.

Debt

At June 30, 2017, the School District had \$12,964,068 in debt outstanding. See Notes 14 and 15 for additional details. Table 5 summarizes debt outstanding.

Table 5
Outstanding Debt at June 30

	Governmental Activities	
	2017	2016
General Obligation Bonds:		
Various Series/Term Bonds	\$ 8,960,000	\$ 9,110,000
Various Capital Appreciation Bonds	0	90,519
Accretion on Capital Appreciation Bonds	0	470,147
Capital Leases	4,004,068	4,542,781
<i>Totals</i>	<u>\$ 12,964,068</u>	<u>\$ 14,213,447</u>

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

Current Issues

Massillon City School District continues to uphold the highest standards of service for our students, parents and community while remaining within our funding capability. The ultimate goal of the School District is to offer the best educational and extra-curricular experience for students.

The Board and Administration have been successful in right-sizing the District and addressing renovation and repair of the buildings. Over the past five (5) years, the following repairs have been completed:

- Washington High School Roof Replacement Completed
- Demolition of Emerson, and Bowers Elementary Schools
- Boiler Replacements at Whittier, Franklin and Gorrell Elementary Schools.
- Asphalt Repair at all the Buildings
- Washington High School Door and Window Replacements
- Massillon Middle School Roof Repair

Looking to the future the Board has approved a \$2.8 million Track and Field Facility Project at the Middle School; as well as an Operations Facility to begin in January, 2018 which will house the Transportation Department; Food Service Department; Technology Department and Administration Offices.

Great strides have been made in preserving the buildings; however, the ultimate long term goal is to be a school district that inspires our community with our academic, artistic and athletic programs.

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 Sandy Moeglin, Treasurer of Massillon City School District, 930 17th Street N. E., Massillon, Ohio 44646 or smoeglin@massillonschools.org.

Massillon City School District
Stark County, Ohio
Statement of Net Position
June 30, 2017

	Primary Government	Component Unit
	Governmental Activities	Massillon Digital Academy
Assets		
Equity in Pooled Cash and Investments	\$ 38,697,712	\$ 757,142
Cash and Cash Equivalents with Fiscal Agent	4,159,546	0
Cash and Cash Equivalents in Segregated Accounts	93,743	0
Receivables:		
Accrued Interest	39,325	0
Accounts	25,072	0
Intergovernmental	1,143,822	21,353
Income Taxes	11,649	0
Property Taxes	20,695,029	0
Nondepreciable Capital Assets	3,886,546	0
Depreciable Capital Assets (Net)	31,464,578	21,479
<i>Total Assets</i>	<u>100,217,022</u>	<u>799,974</u>
Deferred Outflows of Resources		
Deferred Charges on Refunding	479,271	0
Pension	14,593,811	0
<i>Total Deferred Outflows of Resources</i>	<u>15,073,082</u>	<u>0</u>
Liabilities		
Accounts Payable	33,353	1,140
Accrued Wages and Benefits	3,972,184	0
Contracts Payable	42,947	0
Intergovernmental Payable	670,825	75,732
Accrued Vacation Leave Payable	61,365	0
Matured Compensated Absences Payable	10,736	0
Accrued Interest Payable	44,455	0
Long Term Liabilities:		
Due Within One Year	1,597,777	0
Due In More Than One Year:		
Net Pension Liability	71,604,559	0
Other Amounts Due in More Than One Year	15,067,839	0
<i>Total Liabilities</i>	<u>93,106,040</u>	<u>76,872</u>
Deferred Inflows of Resources		
Property Taxes Levied for the Next Year	16,380,952	0
Pension	553,030	0
<i>Total Deferred Inflows of Resources</i>	<u>16,933,982</u>	<u>0</u>
Net Position		
Net Investment in Capital Assets	26,432,534	21,479
Restricted For:		
Capital Outlay	2,540,799	0
Debt Service	925,526	0
Other Purposes	3,849,756	12,433
Unrestricted	(28,498,533)	689,190
<i>Total Net Position</i>	<u>\$ 5,250,082</u>	<u>\$ 723,102</u>

See the accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions and Interest	Primary Government	Component Unit
					Governmental Activities	Massillon Digital Academy
Governmental Activities						
Instruction:						
Regular	\$ 22,907,712	\$ 1,700,634	\$ 300,972	\$ 0	\$ (20,906,106)	\$ 0
Special	6,144,889	38,856	4,379,976	0	(1,726,057)	0
Vocational	2,406,930	4,567	839,107	0	(1,563,256)	0
Adult/Continuing	83	0	0	0	(83)	0
Student Intervention Services	135,944	0	0	0	(135,944)	0
Other	426,643	0	250,217	0	(176,426)	0
Support Services:						
Pupils	3,234,325	0	290,326	0	(2,943,999)	0
Instructional Staff	1,279,663	0	253,198	0	(1,026,465)	0
Board of Education	213,860	0	0	0	(213,860)	0
Administration	2,698,521	0	219,186	0	(2,479,335)	0
Fiscal	1,092,549	0	0	0	(1,092,549)	0
Business	6,995	0	0	0	(6,995)	0
Operation and Maintenance of Plant	4,396,164	125,425	116,701	3,732	(4,150,306)	0
Pupil Transportation	2,053,008	31,003	825,473	0	(1,196,532)	0
Central	588,767	0	10,800	0	(577,967)	0
Operation of Non-Instructional Services:						
Food Service Operations	1,899,631	28,654	1,829,159	0	(41,818)	0
Community Services	337,278	0	213,045	0	(124,233)	0
Extracurricular Activities	2,092,182	527,393	11,040	0	(1,553,749)	0
Debt Service:						
Interest and Fiscal Charges	512,270	0	0	0	(512,270)	0
Total	\$ 52,427,414	\$ 2,456,532	\$ 9,539,200	\$ 3,732	(40,427,950)	0
Component Unit						
Massillon Digital Academy	\$ 489,943	\$ 3,860	\$ 52,445	\$ 0	0	\$ (433,638)

General Revenues

Property Taxes Levied for:			
General Purposes		15,626,490	0
Debt Service		777,775	0
Capital Outlay		1,452,085	0
Classroom Maintenance		163,191	0
Income Taxes Levied for:			
General Purposes		9,616	0
Grants and Entitlements Not Restricted to Specific Programs		27,891,671	223,552
Insurance Recoveries		5,590	0
Investment Earnings		88,956	4,150
Miscellaneous		158,661	100
Total General Revenues		46,174,035	227,802
Change in Net Position		5,746,085	(205,836)
Net Position Beginning of Year		(496,003)	928,938
Net Position End of Year		\$ 5,250,082	\$ 723,102

See accompanying notes and accountant's compilation report.

See the accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Balance Sheet
Governmental Funds
June 30, 2017

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Investments	\$ 25,763,186	\$ 12,934,526	\$ 38,697,712
Cash and Cash Equivalents with Fiscal Agent	0	4,159,546	4,159,546
Cash and Cash Equivalents in Segregated Accounts	0	93,743	93,743
Receivables:			
Accrued Interest	39,325	0	39,325
Accounts	25,072	0	25,072
Interfund	230,298	0	230,298
Intergovernmental	178,697	965,125	1,143,822
Income Taxes	11,649	0	11,649
Property Taxes	17,939,491	2,755,538	20,695,029
<i>Total Assets</i>	<u>\$ 44,187,718</u>	<u>\$ 20,908,478</u>	<u>\$ 65,096,196</u>
Liabilities			
Accounts Payable	\$ 22,972	\$ 10,381	\$ 33,353
Accrued Wages and Benefits	3,555,198	416,986	3,972,184
Contracts Payable	9,553	33,394	42,947
Intergovernmental Payable	631,460	39,365	670,825
Matured Compensated Absences Payable	10,736	0	10,736
Interfund Payable	0	230,298	230,298
<i>Total Liabilities</i>	<u>4,229,919</u>	<u>730,424</u>	<u>4,960,343</u>
Deferred Inflows of Resources			
Property Taxes Levied for the Next Year	14,209,011	2,171,941	16,380,952
Unavailable Revenue	2,736,455	1,371,230	4,107,685
<i>Total Deferred Inflows of Resources</i>	<u>16,945,466</u>	<u>3,543,171</u>	<u>20,488,637</u>
Fund Balances			
Nonspendable	2,592	0	2,592
Restricted	0	10,984,484	10,984,484
Committed	15	1,212,855	1,212,870
Assigned	764,687	5,000,000	5,764,687
Unassigned	22,245,039	(562,456)	21,682,583
<i>Total Fund Balances</i>	<u>23,012,333</u>	<u>16,634,883</u>	<u>39,647,216</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 44,187,718</u>	<u>\$ 20,908,478</u>	<u>\$ 65,096,196</u>

See the accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2017

Total Governmental Fund Balances		\$ 39,647,216
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		35,351,124
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental	\$ 961,717	
Income Taxes	1,738	
Property Taxes	<u>3,144,230</u>	4,107,685
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(44,455)
In the statement of activities, a gain/loss on refunding is amortized over the term of the bonds, whereas in governmental funds a refunding gain/loss is reported when bonds are issued.		479,271
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	14,593,811	
Deferred Inflows - Pension	(553,030)	
Net Pension Liability	<u>(71,604,559)</u>	(57,563,778)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(8,960,000)	
Bond Premium	(579,506)	
Capital Lease Obligation	(4,004,068)	
Vacation Payable	(61,365)	
Compensated Absences	<u>(3,122,042)</u>	<u>(16,726,981)</u>
<i>Net Position of Governmental Activities</i>		<u><u>\$ 5,250,082</u></u>

See the accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property and Other Local Taxes	\$ 16,014,432	\$ 2,450,117	\$ 18,464,549
Income Taxes	9,612	0	9,612
Intergovernmental	31,845,052	5,583,870	37,428,922
Investment Income	76,288	16,846	93,134
Tuition and Fees	1,496,113	0	1,496,113
Extracurricular Activities	68,642	408,881	477,523
Rentals	63,882	5,023	68,905
Charges for Services	385,334	28,654	413,988
Contributions and Donations	5,978	18,681	24,659
Miscellaneous	106,799	51,862	158,661
<i>Total Revenues</i>	<u>50,072,132</u>	<u>8,563,934</u>	<u>58,636,066</u>
Expenditures			
Current:			
Instruction:			
Regular	19,968,468	644,947	20,613,415
Special	4,169,803	1,669,944	5,839,747
Vocational	2,299,701	12,024	2,311,725
Adult Education	0	29	29
Student Intervention Services	108,846	1,593	110,439
Other	198,917	220,427	419,344
Support Services:			
Pupils	2,752,708	312,381	3,065,089
Instructional Staff	932,083	294,485	1,226,568
Board of Education	212,491	0	212,491
Administration	2,313,192	227,511	2,540,703
Fiscal	995,710	51,547	1,047,257
Business	6,995	0	6,995
Operation and Maintenance of Plant	3,978,734	1,689,875	5,668,609
Pupil Transportation	1,894,055	3,163	1,897,218
Central	551,472	10,800	562,272
Extracurricular Activities	1,192,822	561,271	1,754,093
Operation of Non-Instructional Services:			
Food Service Operations	7,638	1,873,244	1,880,882
Community Services	26,429	291,524	317,953
Capital Outlay	9,553	78,127	87,680
Debt Service:			
Principal Retirement	167,483	611,749	779,232
Interest and Fiscal Charges	8,067	990,138	998,205
<i>Total Expenditures</i>	<u>41,795,167</u>	<u>9,544,779</u>	<u>51,339,946</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>8,276,965</u>	<u>(980,845)</u>	<u>7,296,120</u>
Other Financing Sources (Uses)			
Insurance Recoveries	5,590	0	5,590
Transfers In	86	5,511,267	5,511,353
Transfers Out	(5,511,267)	(86)	(5,511,353)
<i>Total Other Financing Sources (Uses)</i>	<u>(5,505,591)</u>	<u>5,511,181</u>	<u>5,590</u>
<i>Net Change in Fund Balance</i>	2,771,374	4,530,336	7,301,710
<i>Fund Balances Beginning of Year</i>	<u>20,240,959</u>	<u>12,104,547</u>	<u>32,345,506</u>
<i>Fund Balances End of Year</i>	<u>\$ 23,012,333</u>	<u>\$ 16,634,883</u>	<u>\$ 39,647,216</u>

See the accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
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, 2017

Net Change in Fund Balances - Total Governmental Funds	\$	7,301,710
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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.		
Capital Asset Additions	\$ 2,372,538	
Current Year Depreciation	<u>(2,350,975)</u>	21,563
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes	(445,008)	
Income Taxes	4	
Intergovernmental	<u>(23,153)</u>	(468,157)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
General Obligation Bonds	150,000	
Capital Appreciation Bonds	90,519	
Accreted Interest on Capital Appreciation Bonds	544,481	
Capital Leases	<u>538,713</u>	1,323,713
In the statement of activities, interest is accrued on outstanding bonds, and bond premium and gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.		
Accrued Interest Payable	4,222	
Amortization of Premium on Bonds	66,866	
Amortization of Refunding Loss	<u>(55,300)</u>	15,788
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		3,481,645
Except for amount reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		(5,765,301)
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	(241,924)	
Vacations Payable	<u>151,382</u>	(90,542)
Accretion on capital appreciation bonds is an expenditure in the governmental funds, but is allocated as an expense over the life of the bonds.		<u>(74,334)</u>
<i>Change in Net Position of Governmental Activities</i>		<u><u>\$ 5,746,085</u></u>

See the accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Property and Other Local Taxes	\$ 15,436,185	\$ 15,749,917	\$ 15,666,262	\$ (83,655)
Income Taxes	15,000	12,511	12,511	0
Intergovernmental	27,299,626	31,594,312	31,799,726	205,414
Investment Income	100,000	215,350	317,118	101,768
Tuition and Fees	959,000	1,406,190	1,445,032	38,842
Rentals	65,000	92,750	14,442	(78,308)
Charges for Services	250,000	677,604	385,334	(292,270)
Contributions and Donations	10,000	10,000	1,500	(8,500)
Miscellaneous	40,000	54,063	97,686	43,623
<i>Total Revenues</i>	<u>44,174,811</u>	<u>49,812,697</u>	<u>49,739,611</u>	<u>(73,086)</u>
Expenditures				
Current:				
Instruction:				
Regular	17,377,644	20,661,764	19,733,635	928,129
Special	1,031,055	4,721,371	4,408,161	313,210
Vocational	2,155,926	2,580,355	2,328,160	252,195
Student Intervention Services	106,395	123,670	108,846	14,824
Other	74,453	227,362	190,052	37,310
Support Services:				
Pupils	3,377,523	3,345,014	2,840,488	504,526
Instructional Staff	826,677	1,027,358	921,541	105,817
Board of Education	228,052	332,529	257,937	74,592
Administration	2,623,579	2,606,172	2,281,690	324,482
Fiscal	1,264,661	1,232,014	999,476	232,538
Business	0	30,000	30,000	0
Operation and Maintenance of Plant	4,678,799	4,918,538	4,113,612	804,926
Pupil Transportation	2,349,273	2,269,648	2,056,851	212,797
Central	722,679	605,700	569,066	36,634
Extracurricular Activities	1,218,437	1,274,636	1,101,468	173,168
Operation of Non-Instructional Services:				
Community Services	12,937	32,189	27,149	5,040
<i>Total Expenditures</i>	<u>38,048,090</u>	<u>45,988,320</u>	<u>41,968,132</u>	<u>4,020,188</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>6,126,721</u>	<u>3,824,377</u>	<u>7,771,479</u>	<u>3,947,102</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	0	450,161	0	(450,161)
Refund of Prior Year Receipts	0	(50,100)	0	50,100
Insurance Recoveries	0	5,590	5,590	0
Advances In	0	359,478	359,478	0
Transfers In	0	1,013,746	13,746	(1,000,000)
Advances Out	0	(210,925)	(210,346)	579
Transfers Out	0	(5,638,554)	(5,638,554)	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>(4,070,604)</u>	<u>(5,470,086)</u>	<u>(1,399,482)</u>
<i>Net Change in Fund Balance</i>	6,126,721	(246,227)	2,301,393	2,547,620
<i>Fund Balance Beginning of Year</i>	22,080,771	22,080,771	22,080,771	0
Prior Year Encumbrances Appropriated	582,563	582,563	582,563	0
<i>Fund Balance End of Year</i>	<u>\$ 28,790,055</u>	<u>\$ 22,417,107</u>	<u>\$ 24,964,727</u>	<u>\$ 2,547,620</u>

See the accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Investments	\$ 35,122	\$ 139,011
Investments	56,035	0
<i>Total Assets</i>	91,157	\$ 139,011
Liabilities		
Accounts Payable	0	\$ 18,834
Due to Students	0	120,177
<i>Total Liabilities</i>	0	\$ 139,011
Net Position		
Held in Trust for Scholarships	\$ 91,157	

See the accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2017

	Private Purpose Trust
Additions	
Gifts and Contributions	\$ 19,805
Investment Earnings	98
<i>Total Additions</i>	19,903
 Deductions	
Payments in Accordance with Trust Agreements	33,000
<i>Change in Net Position</i>	(13,097)
<i>Net Position Beginning of Year</i>	104,254
<i>Net Position End of Year</i>	\$ 91,157

See the accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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.

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 identifies 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
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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, 930 17th Street N.E., Massillon, Ohio 44646.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting entity for establishing governmental accounting and financial reporting principles. The School District's significant 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 position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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

The statement of net position 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.

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.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The School District’s only major fund is described below:

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

The other governmental funds of the School District account for grants and other resources to which the School District is bound to observe constraints imposed upon the use of the resources.

Fiduciary Funds – Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the 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 and athletic tournaments.

C. Measurement Focus

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

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

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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 for 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 inflows and outflows, 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 Outflows/Inflows of Resources – In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 10.

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In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue may include delinquent property taxes, intergovernmental grants, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 10).

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 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 resources. 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.

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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.

The School District utilizes a financial institution to service to hold lease proceeds. The proceeds will be spent as work is completed on the project. The balance in this account is presented on the Financial Statements as "Cash and Cash Equivalents with Fiscal Agent."

During fiscal year 2017, investments were limited to Federal National Mortgage Association notes, Federal Home Loan Bank notes, Federal Home Loan Mortgage notes, Federal Farm Credit Bank notes, First American Treasury Money Market, commercial paper, certificates of deposit, STAR Plus and STAR Ohio.

The School District has segregated bank accounts for monies held separate from the School District’s central bank account. These interest bearing depository accounts are presented as “cash and cash equivalents in segregated accounts” since they are not required to be deposited into the School District’s treasury. See Note 5, “Deposits and Investments.”

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.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value. Certificates of deposit are reported at fair value.

The School District also invests in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance, with no term commitment on deposits.

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 2017 amounted to \$76,288, which includes \$13,969 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.”

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G. 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 position but are not reported in the fund financial statements.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 Years
Building and Improvements	20-50 Years
Furniture and Fixtures	3-20 Years
Vehicles	10-15 Years

H. 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 position.

I. 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.

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J. Pensions

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences and net pension liability 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 and capital leases are recognized as a liability on the fund financial statements when due.

L. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets 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 position is 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, 2017, none of the School District's net position was restricted by enabling legislation. Net position 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 position is available.

M. Fund Balance Reserves

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the School District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

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

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

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

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

N. 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.

O. 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 2017.

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P. 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.

Q. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2017, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this statement did not result in any change in the School District's financial statements as the School District does not have any material GASB Statement No. 77 tax abatements.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the School District.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the School District.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School District's fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

NOTE 3: ACCOUNTABILITY

Fund balances at June 30, 2017, included the following individual fund deficit:

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	Deficit
Nonmajor Fund:	
Vocational Education Enhancement	\$ 517
Public Preschool Grants	81,743
Title VI-B	216,901
Carl Perkins Grant	4,096
Title I	248,887
Title VI-R	9,361
Preschool Grants Handicap	951

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 assigned fund balance (GAAP).
4. Some funds are included in the general fund (GAAP), but have separate legally adopted budgets.

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>Net Change in Fund Balance</u>	
GAAP Basis	\$ 2,771,374
Net Adjustment for Revenue Accruals	175,942
Net Adjustment for Expenditure Accruals	40
Funds Budgeted Elsewhere	146,305
Adjustment for Encumbrances	(792,268)
Budget Basis	\$ 2,301,393

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** As part of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting*, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes uniform school supplies, rotary fund-special services, internal services rotary, unclaimed funds, termination of benefits and public school support funds.

NOTE 5: DEPOSITS AND INVESTMENTS

State statutes 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;
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 (STAR Ohio);

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7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in any amount not to exceed forty percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate note 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 fiscal year 2017, 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.

At fiscal year-end, the carrying amount of the School District's deposits was \$9,790,405. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2017, \$7,159,275 of the School District's bank balance of \$10,099,763 was exposed to custodial risk as discussed above, while \$2,940,488 was covered by Federal Deposit Insurance Corporation (FDIC), which includes \$2,600,038 held in a STAR Plus account. 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.

Funds Held by Fiscal Agent

First Merit Bank acts as a fiscal agent for the School District. First Merit Bank held on account as of June 30, 2017, \$4,159,546. This money is held in a trustee account for the constructing, equipping and improving of the project facilities. Collateral is held on direct deposit with the Federal Reserve.

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Investments

As of June 30, 2017, the School District had the following investments and maturities:

Ratings by S&P Gobel Ratings	Investment Type	Measurement Amount	Investment Maturities			Percent of Total
			12 Months or Less	12 to 36 Months	More Than 36 Months	
	Federal Farm Credit					
AA+	Bank (FFCB)	\$ 247,790	\$ 0	\$ 0	\$ 247,790	0.86%
	Federal National Mortgage					
AA+	Association (FNMA)	9,171,172	314,270	3,521,744	5,335,158	31.37%
AA+	Federal Home Loan Bank (FHLB)	2,903,358	0	2,903,358	0	9.93%
AA+	Federal Home Loan Mortgage (FHLM)	2,580,178	0	1,841,688	738,490	8.83%
AAAm	First American Treasury Market	41,847	41,847	0	0	0.14%
A-1+	Commercial Paper	10,141,608	10,141,608	0	0	34.69%
N/A	Certificates of Deposit	1,981,805	0	745,667	1,236,138	6.78%
AAAm	STAR Ohio	2,163,460	2,163,460	0	0	7.40%
	Total Investments	<u>\$ 29,231,218</u>	<u>\$ 12,661,185</u>	<u>\$ 9,012,457</u>	<u>\$ 7,557,576</u>	<u>100.00%</u>

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the School District's recurring fair value measurements as of June 30, 2017. As discussed further in Note 2, the repurchase agreement is reported at cost and STAR Ohio is reported at its share price. All other investments of the School District are valued using quoted market prices (Level 1 inputs).

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. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

Credit Risk The School District's investments during fiscal year 2017 included STAR Ohio, Commercial Paper, First American Treasury Market, FHLM notes, FNMA notes, FHLB notes and FFCB notes. STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2017, is 46 days. The School District has no investment policy dealing with investment credit risk beyond the requirements in state statutes.

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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 percent. 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.

NOTE 6: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance 06/30/2016	Additions	Deletions	Balance 06/30/2017
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 3,707,386	\$ 0	\$ 0	\$ 3,707,386
Construction in Progress	180,000	474,563	(475,403)	179,160
<i>Total Capital Assets Not Being Depreciated</i>	<u>3,887,386</u>	<u>474,563</u>	<u>(475,403)</u>	<u>3,886,546</u>
Capital Assets, Being Depreciated:				
Land Improvements	6,278,413	0	0	6,278,413
Buildings and Improvements	55,367,437	681,059	0	56,048,496
Furniture and Fixtures	11,429,765	1,343,096	(12,103)	12,760,758
Vehicles	3,574,458	349,223	0	3,923,681
<i>Total Capital Assets, Being Depreciated</i>	<u>76,650,073</u>	<u>2,373,378</u>	<u>(12,103)</u>	<u>79,011,348</u>
Less Accumulated Depreciation:				
Land Improvements	(5,406,310)	(187,640)	0	(5,593,950)
Buildings and Improvements	(29,123,980)	(1,413,411)	0	(30,537,391)
Furniture and Fixtures	(8,386,111)	(450,910)	12,103	(8,824,918)
Vehicles	(2,291,497)	(299,014)	0	(2,590,511)
<i>Total Accumulated Depreciation</i>	<u>(45,207,898)</u>	<u>(2,350,975) *</u>	<u>12,103</u>	<u>(47,546,770)</u>
<i>Total Capital Assets, Being Depreciated, Net</i>	<u>31,442,175</u>	<u>22,403</u>	<u>0</u>	<u>31,464,578</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 35,329,561</u>	<u>\$ 496,966</u>	<u>\$ (475,403)</u>	<u>\$ 35,351,124</u>

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* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,132,111
Special	3,244
Vocational	79,026
Adult/Continuing	54
Other	6,393
Support Services:	
Pupil	3,458
Instructional Staff	625
Administration	2,340
Fiscal	333
Operation and Maintenance of Plant	429,546
Pupil Transportation	288,483
Central	13,749
Operation of Non-Instructional Services:	
Food Services Operations	18,002
Community Services	14,801
Extracurricular Activities	358,810
Total Depreciation Expense	\$ 2,350,975

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 and public utility property located in the School District. Real property tax revenue received in calendar year 2017 represents collections of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, 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 year 2017 represents collections of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2015, were levied after April 1, 2016 and are collected in 2017 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.

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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, 2017, are available to finance fiscal year 2017 operations. The amount available as an advance at June 30, 2017 was \$1,011,645 in the general fund, \$49,184 in the bond retirement fund, \$12,992 in the classroom facilities maintenance fund and \$96,026 in the permanent improvement fund. The amount available as an advance at June 30, 2016, was \$663,475 in the general fund, \$31,992 in the bond retirement fund, \$8,513 in the classroom facilities maintenance fund and \$62,461 in the permanent improvement fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2017 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only 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 inflow of resources.

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

The assessed values upon which the fiscal year 2017 taxes were collected are:

	2016 Second Half Collections		2017 First Half Collections	
	Amount	Percent	Amount	Percent
	Real Estate	\$ 367,804,000	93.04%	\$ 371,420,180
Public Utility Personal Property	27,518,330	6.96%	27,641,940	6.93%
	\$ 395,322,330	100.00%	\$ 399,062,120	100.00%
Tax rate per \$1,000 assessed valuation	\$ 56.00		\$ 55.70	

NOTE 8: RECEIVABLES

Receivables at June 30, 2017 consisted of taxes, accounts (miscellaneous and tuition and fees), interfund, accrued interest, and intergovernmental. 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 2017, the School District contracted with Leonard Insurance/Ohio Casualty for various types of insurance as follows:

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Coverage	Amount
General Liability:	
Occurrence	\$ 1,000,000
Aggregate	2,000,000
Umbrella	10,000,000
Buildings and Contents	162,997,090
Automobile Liability	1,000,000

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

B. Employee Health Benefits

The School District participates in the Stark County Schools Council of Governments Health Benefits Plan, a shared risk pool (Note 17) 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 2017 the School District's premiums were \$1,587.61 for family coverage and \$653.54 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 2017, the School District's cost was \$204.72 and \$43.48 for family coverage and \$82.99 and \$17.51 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 Ohio Association of School Business Officials Group Retrospective Rating Program ("GRRP"). The intent of the GRRP 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 GRRP. 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 continues to pay their own individual premiums and have the opportunity to receive retrospective premium adjustments based upon the combined performance of the GRRP. Depending on that performance, the participating employers can receive either a premium refund or assessment. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the GRRP.

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NOTE 10: DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017.

The School District’s contractually required contribution to SERS was \$710,411 for fiscal year 2017. Of this amount, \$42,956 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A

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member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$2,771,234 for fiscal year 2017. Of this amount, \$475,570 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of July 1 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School District's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

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	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 59,973,118	\$ 11,631,441	\$ 71,604,559
Proportion of the Net Pension Liability:			
Current Measurement Date	0.17916856%	0.15891950%	
Prior Measurement Date	<u>0.17250585%</u>	<u>0.15948870%</u>	
Change in Proportionate Share	<u>0.00666271%</u>	<u>-0.00056920%</u>	
Pension Expense	\$ 4,590,822	\$ 1,174,479	\$ 5,765,301

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the School District's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 2,423,202	\$ 156,882	\$ 2,580,084
Net Difference between Projected and Actual Earnings on Pension Plan Investments	4,979,379	959,423	5,938,802
Changes of Assumptions	0	776,462	776,462
Changes in Proportion and Differences between School District Contributions and Proportionate Share of Contributions	1,566,444	250,374	1,816,818
School District Contributions Subsequent to the Measurement Date	<u>2,771,234</u>	<u>710,411</u>	<u>3,481,645</u>
Total Deferred Outflows of Resources	<u>\$ 11,740,259</u>	<u>\$ 2,853,552</u>	<u>\$ 14,593,811</u>
Deferred Inflows of Resources			
Changes in Proportion and Differences between School District Contributions and Proportionate Share of Contributions	<u>\$ 365,101</u>	<u>\$ 187,929</u>	<u>\$ 553,030</u>

\$3,481,645 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in

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the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2018	\$ 1,441,962	\$ 477,459	\$ 1,919,421
2019	1,441,962	476,766	1,918,728
2020	3,352,691	725,191	4,077,882
2021	2,367,309	275,796	2,643,105
	\$ 8,603,924	\$ 1,955,212	\$ 10,559,136

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including Inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

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The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the previous measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School District's Proportionate Share of the Net Pension Liability	\$ 15,399,303	\$ 11,631,441	\$ 8,477,584

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Actuarial Assumptions – STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected Salary Increase	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on the fifth anniversary of the retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS’ investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	<u>3.00</u>
Total	<u>100.00 %</u>	<u>7.61 %</u>

*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit

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payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's Proportionate Share of the Net Pension Liability	\$ 79,699,400	\$ 59,973,118	\$ 43,332,836

Changes Between Measurement Date and Report Date In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School District's net pension liability is expected to be significant.

NOTE 11: POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to

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service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the School District's surcharge obligation was \$81,920.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund. The School District's contributions for health care for the fiscal year ended June 30, 2015, was \$152,170. The full amount has been contributed for fiscal year 2015.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the School District did not contribute to health care in the last three fiscal years.

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. Unused personal leave is converted to sick leave accumulation. Classified employees earn ten 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.

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 union personnel. Members of the Massillon Education Association accrue sick leave to a maximum of 315 days. Administrators and executive staff may accumulate up to a maximum of 320 days. 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.

Massillon City School District
Stark County, Ohio
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For the Fiscal Year Ended June 30, 2017

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 of \$50,000 is provided for all certified and classified employees.

NOTE 13: INTERFUND ACTIVITY

Interfund Balances

Interfund balances at June 30, 2017 consist of the following individual fund receivables and payables:

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
	<u>General</u>
<i>Nonmajor Special Revenue Funds:</i>	
Title VI-B	\$ 83,974
Carl Perkins Grant Fund	4,096
Title VI-R Fund	5,637
Title I	105,009
IDEA	951
Vocational Education Enhancement Fund	517
Public Preschool	27,304
Other Local Grants	2,810
Total	\$ 230,298

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.

Interfund Transfers

During fiscal year 2017, the general fund transferred \$5,000,000 to the building fund. This represented funding for future building projects. During the fiscal year, the general fund also transferred \$511,267 to provide additional resources for current operations to the permanent improvement. The other local grants fund transferred \$86 to the general fund of residual cash to close the fund. Interfund transfers between governmental funds are eliminated in the statement of activities.

Massillon City School District
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NOTE 14: LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2017 were as follows:

	Outstanding 6/30/2016	Additions	Deductions	Outstanding 6/30/2017	Due Within One Year
Governmental Activities					
<i>General Obligation Bonds:</i>					
2011 Limited Tax General					
Obligation Various Purpose Bonds:					
\$1,355,000-1.00-3.00% Serial Bonds	\$ 610,000	\$ 0	\$ (150,000)	\$ 460,000	\$ 150,000
\$1,090,000-3.25-3.75% Term Bonds	1,070,000	0	0	1,070,000	0
2011 Classroom Facilities					
Refunding Bonds:					
\$8,810,000-2.00-4.00% Serial Bonds	7,430,000	0	0	7,430,000	640,000
\$209,995-2.55-2.8% Capital Appreciation Bonds	90,519	0	(90,519)	0	0
Accretion on Capital					
Appreciation Bonds	470,147	74,334	(544,481)	0	0
Unamortized Premium	646,372	0	(66,866)	579,506	0
<i>Total General Obligation Bonds</i>	<u>10,317,038</u>	<u>74,334</u>	<u>(851,866)</u>	<u>9,539,506</u>	<u>790,000</u>
<i>Net Pension Liability:</i>					
STRS	47,675,571	12,297,547	0	59,973,118	0
SERS	9,100,580	2,530,861	0	11,631,441	0
<i>Total Net Pension Liability</i>	<u>56,776,151</u>	<u>14,828,408</u>	<u>0</u>	<u>71,604,559</u>	<u>0</u>
Other Long-Term Obligations:					
Capital Leases	4,542,781	0	(538,713)	4,004,068	549,633
Compensated Absences	2,880,118	346,712	(104,788)	3,122,042	258,144
<i>Total General Long-Term Obligations</i>	<u>\$ 74,516,088</u>	<u>\$ 15,249,454</u>	<u>\$ (1,495,367)</u>	<u>\$ 88,270,175</u>	<u>\$ 1,597,777</u>

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2011 Limited Tax General Obligation Various Purpose Bonds

On July 13, 2011, the School District issued \$2,425,000 of limited tax general obligation various purpose bonds, which included serial and term bonds in the amount of \$1,355,000 and \$1,070,000, respectively. Interest rates range from 1.00 to 3.00 percent on the serial bonds and 3.25 to 3.75 percent on the term bonds. They were issued for a fourteen year period with final maturities at December 1, 2025. The bonds refunded \$2,425,000 of outstanding 2010 bond anticipation notes. The bonds were issued for the purchase of buses, and installations, modifications and remodeling of school buildings to conserve energy.

2011 Classroom Facilities Refunding General Obligation Bonds

On March 10, 2011, the School District issued \$9,019,995 in voted general obligation bonds, which included serial and capital appreciation (deep discount) bonds in the amount of \$8,810,000 and \$209,995, respectively. The bonds advance refunded \$9,015,000 of outstanding 2003 Classroom Facilities General Obligation Bonds. The bonds were issued for a fifteen year period and the 2003 bonds were issued for a twenty-three year period with final maturities at December 1, 2025.

At the date of refunding, \$9,844,506 (including premium and after underwriting fees and other issuance costs) was received to pay off old debt. As a result, \$9,015,000 of the 2003 Series Bonds are considered to be defeased. The liability of the bonds was removed from the financial statements at the time of the refunding. The advance refunding reduced cash flows required for debt service by \$424,543 over the next thirteen years and resulted in an economic gain of \$345,154. The \$7,760,000 of the defeased bonds were called on December 1, 2012.

The bonds were issued with a premium of \$1,002,991, which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of the premium for fiscal year 2017 was \$66,866. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$829,506. This difference, reported in the accompanying financial statements as a deferred outflow of resources - deferred charges on refunding, is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of this difference for fiscal year 2017 was \$55,300.

The bond issue consists of serial and capital appreciation bonds. The serial bonds were issued with a varying interest rate of 2.0 - 4.0 percent. The bonds that mature on or after December 1, 2021 are subject to prior redemption, by and at the sole option of the School District, in whole or in part as selected by the School District (in whole multiples of \$5,000), on any date on or after December 1, 2020, at a redemption price equal to 100 percent of the principal amount redeemed, plus interest accrued to date.

The capital appreciation bonds matured on December 1, 2015 and December 1, 2016. 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 \$1,230,000. The fiscal year 2017 accretion amount is \$74,344. The capital appreciation bonds were paid off as of June 30, 2017.

The general obligation various purpose bonds are paid from the permanent improvement funds and the classroom facilities bonds are paid from the bond retirement fund. Capital leases will be paid from the general and permanent improvement funds. Compensated absences will be paid from the general fund and the food service fund. The School District pays obligations related to employee compensation from the fund benefitting from their service.

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The following is a summary of the School District's annual debt service principal and interest payments on debt outstanding at June 30, 2017:

Fiscal Year	General Obligation Bonds	
Ending June 30,	Principal	Interest
2018	\$ 790,000	\$ 310,137
2019	815,000	287,612
2020	890,000	258,612
2021	935,000	225,456
2022	975,000	192,853
2023-2026	4,555,000	371,515
Total	\$ 8,960,000	\$ 1,646,185

NOTE 15: CAPITAL LEASES

In fiscal year 2016 the School District entered into a grounds lease with First Merit Bank for the construction, equipping and improving of the project facilities. At the time the School District entered into the lease the construction had not been started. As part of the agreement, First Merit Bank, as lessor, deposited \$4,200,000 with a trustee for the construction. As of June 30, 2017 the District had spent \$40,454 of the proceeds from the lease. Capital assets acquired by prior leases have been capitalized in the amount of \$902,600. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation was \$432,254 as of June 30, 2017, leaving a current book value of \$470,346. 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, 2017.

	Amount
Fiscal Year Ending June 30, 2018	\$ 666,412
2019	490,861
2020	490,862
2021	490,861
2022	490,862
2023-2026	1,963,447
	4,593,305
Less: amount representing interest	589,237
Present value of net minimum lease payments	\$ 4,004,068

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NOTE 16: JOINTLY GOVERNED ORGANIZATION

The Stark Portage Area Computer Consortium (SPARCC) is a jointly governed organization among 31 school districts, the Stark County Educational 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 \$162,361 to SPARCC during the fiscal year 2017. 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 17: PUBLIC ENTITY RISK 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.

NOTE 18: CONTINGENCIES

A. Grants

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School District.

B. School District Funding

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. The fiscal year 2017 adjustment resulted in a receivable to the School District in the amount of \$86,810.

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Notes To The Basic Financial Statements
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C. Litigation

The School District is not party to any claims or lawsuits that would, in the School District's opinion, have a material effect of the basic financial statements.

NOTE 19: COMMITMENTS

A. Contractual Commitments

At June 30, 2017, the School District had the following contractual commitment:

	Amount of Contracts	Expenditures as of 6/30/17	Amount Remaining on Contracts
Massillon City Schools Operations Facility	\$ 38,000	\$ 38,000	\$ 0
Paving	36,700	33,394	3,306
Update to Track and Field	165,500	136,672	28,828
Massillon Middle School Roof	163,093	72,830	90,263
Paul Brown Stadium Press Box	181,329	7,099	174,230
Gorrell Elementary Controls Upgrade	616,921	195,650	421,271
	<u>\$ 1,201,543</u>	<u>\$ 483,645</u>	<u>\$ 717,898</u>

B. Encumbrance Commitments

Outstanding encumbrances for governmental funds include \$762,687 in the general fund and \$1,053,513 in nonmajor governmental funds.

Based on timing of when contracts are encumbered, contractual commitments identified above may or may not be included in the outstanding encumbrance commitments previously disclosed in this note.

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 acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and 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. Disclosure of this information is required by State statute.

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	<u>Capital Improvements</u>
Set-Aside Restricted Balance as of June 30, 2016	\$ 0
Current Year Set-Aside Requirement	689,089
Current Year Qualifying Disbursements	(593,447)
Current Year Offsets	<u>(280,271)</u>
 Totals	 <u>\$ (184,629)</u>
 Balance Carried Forward to Fiscal Year 2018	 <u>\$ 0</u>
 Set-Aside Restricted Balance as of June 30, 2017	 <u>\$ 0</u>

Although the School District had qualifying disbursements and offsets (classroom facilities maintenance property tax levy proceeds) during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years.

NOTE 21: RELATED PARTY TRANSACTIONS

During fiscal year 2017, 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 2013 academic year whereby terms of the sponsorship were established. Pursuant to this agreement, the School District’s treasurer/CFO serves as the Academy’s fiscal officer. The Academy is required to pay \$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. In fiscal year 2017, the School District waived the per student fee.

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Massillon City School District
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Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 22: FUND BALANCE

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable for:			
Unclaimed Monies	\$ 2,592	\$ 0	\$ 2,592
Restricted for:			
Debt Service	0	815,860	815,860
Capital Outlay	0	6,686,512	6,686,512
Other Purposes	0	28,804	28,804
Food Services	0	819,824	819,824
Classroom Facilities Maintenance	0	2,217,327	2,217,327
Student Activities Programs	0	416,157	416,157
Total Restricted	<u>0</u>	<u>10,984,484</u>	<u>10,984,484</u>
Committed for:			
Termination of Benefits	15	0	15
Capital Outlay	0	1,212,855	1,212,855
Total Committed	<u>15</u>	<u>1,212,855</u>	<u>1,212,870</u>
Assigned for:			
Subsequent Years Appropriations	2,000	0	2,000
Encumbrances:			
Instruction	302,936	0	302,936
Support Services	447,434	0	447,434
Extracurricular Activities	12,317	0	12,317
Building Projects	0	5,000,000	5,000,000
Total Assigned	<u>764,687</u>	<u>5,000,000</u>	<u>5,764,687</u>
Unassigned	22,245,039	(562,456)	21,682,583
<i>Total Fund Balance</i>	<u>\$ 23,012,333</u>	<u>\$ 16,634,883</u>	<u>\$ 39,647,216</u>

Massillon City School District
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Notes To The Basic Financial Statements
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NOTE 23: MASSILLON DIGITAL ACADEMY

The Massillon Digital Academy (the “Digital Academy”) has been determined to be a discretely presented 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, 930 17th Street N.E., Massillon, Ohio 44646.

A. *Significant Accounting Policies*

Accounting Basis The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Academy's 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 deferred outflows of resources and all liabilities and deferred inflows of resources are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in net position. 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.

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.

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Cash and Cash Equivalents Cash held by the Digital Academy is reflected as “Equity in Pooled Cash and Investments” on its statement of net position. 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 fiscal year 2017, the Academy’s investments were limited to Federal Farm Credit System Bank Bonds.

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.

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. Vehicles are depreciated over a period of five years.

Net Position Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is 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 position of \$689,190 and \$12,433 of restricted net position at year end. The Digital Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is 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.

Massillon City School District
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Notes To The Basic Financial Statements
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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 2017.

B. Deposits

According to State law, 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 5 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 Academy's name. During fiscal year 2017, the Academy and public depositories complied with the provisions of these statutes.

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. The Academy's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

At June 30, 2017 the carrying amount of the Digital Academy's deposits was \$257,527 and the bank balance was \$257,558. At year-end, \$7,558 of the Digital Academy's bank balance was exposed to custodial risk while \$250,000 was covered by Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Investments are reported at fair value. As of June 30, 2017, the Academy had the following investment:

Ratings by S&P Gobel Ratings	Investment Type	Measurement Amount	Investment Maturity 0-12 Months	% of Investments
AA+	Federal Farm Credit System Bank Bonds	<u>\$ 499,615</u>	<u>\$499,615</u>	<u>100.00%</u>

The Academy categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the Academy's recurring fair value measurements as of June 30, 2017. All investments of the Academy are valued using quoted market prices (Level 1 inputs).

Massillon City School District
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Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The Academy’s policy is to follow State statute which is to invest funds with the highest interest rate bid.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The Academy places no limit on the amount that may be invested in any one issuer. The table above includes the percentage of total of each investment type held by the Academy at June 30, 2017.

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance 07/01/2016	Additions	Disposals	Balance 06/30/2017
Furniture	\$ 2,646	\$ 0	\$ 0	\$ 2,646
Computer Equipment	50,600	0	0	50,600
Vehicles	27,442	0	0	27,442
Less: Accumulated Depreciation	(44,596)	(14,613)	0	(59,209)
Total Capital Assets, Net	<u>\$ 36,092</u>	<u>\$ (14,613)</u>	<u>\$ 0</u>	<u>\$ 21,479</u>

D. Fiscal Officer

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

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

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

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For the Fiscal Year Ended June 30, 2017

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 July 1, 2016, whereby terms of the sponsorship were established. The Digital Academy is required to pay \$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 realizes that the survival of the Academy’s existence rests on the operational funds provided through the State Foundation program. In fiscal year 2017, the fee per student was waived by the School District.

F. Purchased Services

For the year ended June 30, 2017, purchased service expenses were recognized for professional services rendered by various vendors as follows:

Massillon Board of Education	\$ 399,946
SPARCC	14,609
Kajeet, Inc.	12,570
Other	<u>25,443</u>
Total Purchased Services	<u><u>\$ 452,568</u></u>

For the year ended June 30, 2017, the Academy recognized \$399,946 in expenses for educational services and curriculum provided by the Massillon Board of Education.

G. Contingencies

Grants

The 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 of the Academy. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2017, if applicable, cannot be determined at this time.

Litigation

The Academy is not party to any claims or lawsuits that would, in the School District’s opinion, have a material effect of the basic financial statements.

Full Time Equivalency

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. During fiscal year 2018, the Academy will pay \$75,732 to the State through their foundation payments

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

for an overpayment from fiscal year 2017. The \$75,732 is included in intergovernmental payable on the financial statements.

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 2017, 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 any of the last three years. There has not been a significant reduction in coverage from the prior year.

I. School District Funding

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08 ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2017. During fiscal 2018, the Academy will pay \$75,732 to the State through their foundation payments for an overpayment from fiscal year 2017. The \$75,732 is included in intergovernmental payable on the financial statements.

In addition, the Academy's contracts with their Sponsor require payment based on student FTEs. As discussed above, additional FTE adjustments for fiscal year 2017 are finalized. However, in fiscal year 2017 the School District waived the per student fee and therefore will not result in an additional receivable to, or liability of, the School District.

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Massillon School District
Stark County, Ohio
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Last Four Fiscal Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>State Teachers Retirement System (STRS)</i>				
School District's Proportion of the Net Pension Liability	0.17916856%	0.17250585%	0.17463428%	0.17463428%
School District's Proportionate Share of the Net Pension Liability	\$ 59,973,118	\$ 47,675,571	\$ 42,477,101	\$ 50,598,444
School District's Covered Payroll	\$ 19,339,057	\$ 15,599,657	\$ 15,732,546	\$ 20,886,800
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	310.11%	305.62%	270.00%	242.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%
<i>School Employees Retirement System (SERS)</i>				
School District's Proportion of the Net Pension Liability	0.15891950%	0.15948870%	0.16572900%	0.16572900%
School District's Proportionate Share of the Net Pension Liability	\$ 11,631,441	\$ 9,100,580	\$ 8,387,450	\$ 9,855,372
School District's Covered Payroll	\$ 7,617,271	\$ 5,100,167	\$ 6,999,242	\$ 6,629,335
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	152.70%	178.44%	119.83%	148.66%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

Notes:

School Employees Retirement System (SERS)

Changes of Benefit Terms: None.

Changes of Assumptions: Amounts reported in 2017 reflect an adjustment of the rates of withdrawal, retirement and disability to more closely reflect actual experience and the expectation of retired life mortality was based on RP-2014 Blue Collar Mortality Tables and RP-2000 Disabled Mortality Table. The following reductions were also made to the actuarial assumptions:

- Discount rate from 7.75% to 7.50%
- Assumed rate of inflation from 3.25% to 3.00%
- Payroll growth assumption from 4.00% to 3.50%
- Assumed real wage growth from 0.75% to 0.50%

Massillon School District
Stark County, Ohio
Required Supplementary Information
Schedule of School District Contributions
Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>State Teachers Retirement System (STRS)</i>			
Contractually Required Contribution	\$ 2,771,234	\$ 2,707,468	\$ 2,183,952
Contributions in Relation to the Contractually Required Contribution	<u>(2,771,234)</u>	<u>(2,707,468)</u>	<u>(2,183,952)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered Payroll	\$ 19,794,529	\$ 19,339,057	\$ 15,599,657
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%
<i>School Employees Retirement System (SERS)</i>			
Contractually Required Contribution	\$ 710,411	\$ 1,066,418	\$ 672,202
Contributions in Relation to the Contractually Required Contribution	<u>(710,411)</u>	<u>(1,066,418)</u>	<u>(672,202)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered Payroll	\$ 5,074,364	\$ 7,617,271	\$ 5,100,167
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 2,045,231	\$ 2,715,284	\$ 2,607,066	\$ 2,620,077	\$ 2,737,175	\$ 2,773,212	\$ 2,880,408
<u>(2,045,231)</u>	<u>(2,715,284)</u>	<u>(2,607,066)</u>	<u>(2,620,077)</u>	<u>(2,737,175)</u>	<u>(2,773,212)</u>	<u>(2,880,408)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 15,732,546	\$ 20,886,800	\$ 20,054,354	\$ 20,154,438	\$ 21,055,192	\$ 21,332,400	\$ 22,156,985
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$ 970,095	\$ 917,500	\$ 964,210	\$ 509,765	\$ 946,648	\$ 938,937	\$ 1,077,054
<u>(970,095)</u>	<u>(917,500)</u>	<u>(964,210)</u>	<u>(509,765)</u>	<u>(946,648)</u>	<u>(938,937)</u>	<u>(1,077,054)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 6,999,242	\$ 6,629,335	\$ 7,168,848	\$ 4,055,410	\$ 6,991,492	\$ 9,542,043	\$ 10,967,963
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

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**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures	Total Federal Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE					
<i>Passed Through Ohio Department of Education</i>					
Child Nutrition Cluster:					
School Breakfast Program	10.553	043497-3L70-2017		373,961	
National School Lunch Program	10.555	043497-3L60-2017		1,285,409	113,950
Summer Food Service Program for Children	10.559	043497-3GE0-2017		3,618	
Total Nutrition Cluster				<u>1,662,988</u>	<u>113,950</u>
Total U.S. Department of Agriculture				<u>1,662,988</u>	<u>113,950</u>
U.S. DEPARTMENT OF EDUCATION					
<i>Passed Through Ohio Department of Education</i>					
Title I Grants to Local Educational Agencies	84.010	043497-3M00-2016		137,444	
Title I Grants to Local Educational Agencies	84.010	043497-3M00-2017		1,294,189	
Total Title I Grants to Local Educational Agencies				<u>1,431,633</u>	
Special Education Grants to States	84.027	043497-3M20-2016		66,915	
Special Education Grants to States	84.027	043497-3M20-2017		896,448	
Early Childhood Special Education	84.173	043497-3C50-2017		11,982	
Total Special Education Cluster				<u>975,345</u>	
Career and Technical Education Basic Grants to States	84.048	043497-3L90-2017		76,962	
Total Career and Technical Education Basic Grants to States				<u>76,962</u>	
Supporting Effective Instruction State Grants	84.367	043497-3Y60-2016		11,843	
Supporting Effective Instruction State Grants	84.367	043497-3Y60-2017		227,588	
				<u>239,431</u>	
Total U.S. Department of Education				<u>2,723,371</u>	
Total Expenditures of Federal Awards				<u>\$4,386,359</u>	<u>\$113,950</u>

The accompanying notes are an integral part of this schedule.

**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Massillon City School District (the District's) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE D - FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE E - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2017 to 2018 programs:

Program Title	CFDA Number	Amt. Transferred
Title I Grants to Local Educational Agencies	84.010	\$ 111,727
Improving Teacher Quality	84.367	\$ 181,428
Special Education Grants to State	84.027	\$ 109,755
Early Childhood Special Education	84.173	\$ 268



Dave Yost • Auditor of State

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

Massillon City School District
Stark County
930 17th Street N.E.
Massillon, Ohio 44646

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate discretely presented component unit and remaining fund information of the Massillon City School District, Stark County, (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 5, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

April 5, 2018



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Massillon City School District
Stark County
930 17th Street N.E.
Massillon, Ohio 44646

To the Board of Education:

Report on Compliance for each Major Federal Program

We have audited Massillon City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of Massillon City School District's major federal programs for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings and questioned costs identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on Child Nutrition Cluster and Special Education Cluster

As described in finding 2017-001 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding Activities Allowed and Unallowed and Allowable Costs/Cost Principles applicable to its Child Nutrition Cluster and Special Education Cluster major federal programs.

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

Qualified Opinion on Child Nutrition Cluster and Special Education Cluster

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Child Nutrition Cluster and Special Education Cluster* paragraph, Massillon City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect its *Child Nutrition Cluster and Special Education Cluster* for the year ended June 30, 2017.

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness, described in the accompanying schedule of findings and questioned costs as item 2017-001.

Massillon City School District
Stark County
Independent Auditor's Report On Compliance With Requirements
Applicable to Each Major Program And On Internal Control Over
Compliance Required By The Uniform Guidance
Page 3

The District's response to our internal control over compliance finding is described in the accompanying schedule of findings and questioned costs and / or corrective action plan. We did not audit the District's response and, accordingly, we express no opinion on it.

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

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

Dave Yost
Auditor of State
Columbus, Ohio

April 5, 2018

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**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
2 CFR § 200.515
JUNE 30, 2017**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Child Nutrition Cluster – Qualified Special Education Cluster – Qualified
(d)(1)(vi)	Are there any reportable findings under 2 CFR §200.516(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster Special Education Cluster
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR §200.520?	No

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Time and Effort Documentation

Finding Number	2017-001		
CFDA Title and Number	Child Nutrition Cluster (10.553; 10.555; 10.559) Special Education Cluster (84.027; 84.0173)		
Federal Award Identification Number / Year	2017		
Federal Agency	Department of Agriculture Department of Education		
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles		
Pass-Through Entity	Ohio Department of Education		
Repeat Finding from Prior Audit?	2016-001	Finding Number? (if repeat)	2017-001

QUESTIONED COST/ NONCOMPLIANCE / MATERIAL WEAKNESS

2 CFR §3474.1 gives regulatory effect to the Department of Education for §200.430, which provides, in part, compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries. Costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies and meets the requirements of Federal statute, where applicable; and
- (3) Is determined and supported as provided in paragraph (i) of this section, Standards for Documentation of Personnel Expenses, when applicable.

(i) *Standards for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS);
- (iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;
- (v) Comply with the established accounting policies and practices of the non-Federal entity (See paragraph (h)(1)(ii) above for treatment of incidental work for IHEs.); and
- (vi) [Reserved]

FINDING 2017-001 (Continued)

(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

For fiscal year 2017, time and effort documentation was not maintained for 13 of 40 special education pays tested. As a result, Special Education Cluster payroll expenditures in the amount of \$8,327 were unsupported. The projected amount of \$158,990 will be considered a questioned cost.

In addition, time and effort documentation was not maintained for 11 of 40 food service pays tested. As a result, Child Nutrition Cluster payroll expenditures in the amount of \$4,772 were unsupported. The projected amount of \$129,271 will be considered a questioned cost.

The District should maintain personnel activity reports or equivalent documentation when employees are paid from multiple funds and semi-annual certifications for employees paid from only one grant fund. This may help ensure the proper amount is being charged to each Federal program.

The District should maintain semi-annual certifications, personnel activity reports, or equivalent documentation required for all employees paid from any Federal program, in accordance with the requirements of CFR §200.430. This may help ensure the District is in compliance with all Federal time and effort documentation requirements. Furthermore, failure to maintain adequate time and effort documentation could compromise the District's eligibility to participate in future Federal grant programs.

Official's Response:

See response in the corrective action plan.

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Massillon City Schools

In Pursuit of Excellence

930 17th St. NE :: Massillon, OH 44646 :: p:330-830-3900

Sandra Moeglin, *Treasurer*

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

2 CFR 200.511(b)

June 30, 2017

2016 -001 Time and Effort documentation was not maintained for food service employees.

The reasons for the recurrence:

My understanding was that Time and Effort Documentation was to be completed by Regular Contracted Employees. Thus, student workers and substitutes were never asked to sign these forms. The Food Service Director's responsibility was to have employees sign Time and Effort Documentation twice a year.

The Massillon City School District has had several Food Service Directors; Kate Sample resigned July 31, 2016; Dea Most was hired August 16, 2016 and left August 26, 2016; Mark Fortner, Asst. Superintendent assumed the duties of Food Service Director for the remainder of FY17. Amy Coyle was hired February 13, 2017 as the Food Service Intern through July 31, 2017. August 1st, Ms. Coyle assumed the role as Food Service Director.

Corrective Action Plan

1. A report from the Treasurer's Office is generated showing all staff paid from the Food Service Fund in December and May.
2. This report is sent to the Food Service Director with the direction to get a Semi-Annual Certification signed by each staff member on the report.
3. The Certifications are returned to the Treasurer's Office.
4. Dollars from the General Fund will pay all student workers and substitutes.
5. Treasurer's Office will confirm that Semi-Annual Certificates are received from all employees on the report.

Sandra J. Moeglin, Treasurer
Massillon City Schools
(330) 830-7437
smoeglin@massillonschools.org

2016-002 - Property Records for equipment purchased with federal funds were not maintained - Corrected

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Massillon City Schools

In Pursuit of Excellence

930 17th St. NE :: Massillon, OH 44646 :: p:330-830-3900

Sandra Moeglin, Treasurer

SUMMARY SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
2 CFR 200.511(b)
June 30, 2017

2017 -001 Time and Effort documentation was not maintained for Employees paid from Food Service and IDEA-B Funds

The reasons for the recurrence:

My understanding was that Time and Effort Documentation was to be completed by Regular Contracted Employees. Thus, student workers and substitutes were never asked to sign these forms. The Department Director's responsibility was to have employees sign Time and Effort Documentation twice a year.

Corrective Action Plan

1. A report from the Treasurer's Office is generated showing all staff paid from the Federal Funds in December and May.
2. This report is sent to the Department Director with the direction to get a Semi-Annual Certification signed by each staff member on the report.
3. The Certificates are returned to the Treasurer's Office.
4. The Treasurer's Office will confirm and retain Semi-Annual Certificates for all employees on the report.
5. Dollars from the General Fund will pay student workers and substitutes.

Sandra J. Moeglin, Treasurer
Massillon City Schools
(330) 830-7437
smoeglin@massillonschools.org
Anticipated completion date: 3/1/2018

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Dave Yost • 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
MAY 10, 2018**