



OHIO AUDITOR OF STATE
KEITH FABER



**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY
JUNE 30, 2018**

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STARK COUNTY
JUNE 30, 2018

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OHIO AUDITOR OF STATE KEITH FABER



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, each major fund and the aggregate discretely presented component unit and remaining fund information of the Massillon City School District, Stark County, Ohio (the District), as of and for the year ended June 30, 2018, 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, each major fund, the aggregate discretely presented component unit and remaining fund information of the Massillon City School District, Stark County, Ohio, as of June 30, 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. We did not modify our opinion regarding this matter.

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 and other post-employment benefit liabilities and pension and other post-employment benefit 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 March 6, 2019, 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 "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber
Auditor of State

Columbus, Ohio

March 6, 2019

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Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

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, 2018. 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 2018 are as follows:

- Net position increased \$28,923,489 during fiscal year 2018 due to changes in components related to GASB 68/75. The decrease in net pension liability and OPEB liability substantially decreased all instructional and support service expenses compared to fiscal year 2017. See further explanation after Table 1.
- Capital assets increased \$2,740,902 during fiscal year 2018.
- During the year, outstanding debt, excluding unamortized premiums and refunding losses, decreased from \$12,964,068 to \$11,624,435 due to the principal payments.
- The School District implemented GASB 75, which reduced beginning net position as previously reported by \$14,216,848.

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 and capital project funds are by far the most significant funds.

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 2018?" 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

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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 18. 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 funds are the general and capital projects funds.

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 23 and 24. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

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 2018 compared to fiscal year 2017. Net position for fiscal year 2017 has been restated as described in Note 2.

Table 1
Net Position

	Governmental Activities	
	2018	Restated 2017
Assets		
Current and Other Assets	\$ 67,081,261	\$ 64,865,898
Capital Assets	38,092,026	35,351,124
<i>Total Assets</i>	<u>105,173,287</u>	<u>100,217,022</u>
Deferred Outflows of Resources		
Deferred Charges on Refunding	423,971	479,271
Pension & OPEB	17,403,437	14,675,731
<i>Total Deferred Outflows of Resources</i>	<u>17,827,408</u>	<u>15,155,002</u>
Liabilities		
Current Liabilities	5,399,484	4,835,865
Long-Term Liabilities:		
Due Within One Year	1,439,392	1,597,777
Due in More Than One Year		
Pension & OPEB	62,640,597	85,903,327
Other Amounts	14,098,362	15,067,839
<i>Total Liabilities</i>	<u>83,577,835</u>	<u>107,404,808</u>
Deferred Inflows of Resources		
Property Taxes	15,392,010	16,380,952
Pension & OPEB	4,074,127	553,030
<i>Total Deferred Inflows of Resources</i>	<u>19,466,137</u>	<u>16,933,982</u>
Net Position		
Net Investment in Capital Assets	29,203,682	26,432,534
Restricted	7,093,705	7,316,081
Unrestricted	(16,340,664)	(42,715,381)
<i>Total Net Position</i>	<u>\$ 19,956,723</u>	<u>\$ (8,966,766)</u>

Massillon City School District
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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2018 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. For fiscal year 2018, the School District adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the School District's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

Massillon City School District
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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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the School District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the School District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from \$5,250,082 to \$(8,966,766).

At year end, capital assets represented 36 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 \$29,203,682 at June 30, 2018. 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, \$7,093,705 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 \$(16,340,664).

Total assets increased \$4,956,265. Cash balance continued to increase in fiscal year 2018 due to keeping expenses in line. Capital assets increased due to several new projects in fiscal year 2018. Intergovernmental receivables decreased \$277,430 in fiscal year 2018, due to SERS and FTE adjustment being a payable instead of a receivable in fiscal year 2018 and a decrease in Medicaid receivable.

The significant decrease in net pension liability is largely the result of a change in benefit terms in which STRS reduced their COLA to zero coupled by a slight reduction in COLA benefits by SERS. The significant increase in deferred outflows and inflows related to pension/OPEB are primarily from the change of assumptions and the difference in projected and actual investments earnings, respectively. All components of pension and OPEB accruals contribute to the fluctuations in deferred outflows/inflows and NPL/NOL and are described in more detail in their respective notes.

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Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Table 2 shows the changes in net position for fiscal year 2018 and 2017.

Table 2
Changes in Net Position

	2018	2017
Revenues		
<i>Program Revenues:</i>		
Charges for Services	\$ 2,838,670	\$ 2,456,532
Operating Grants	8,555,010	8,763,091
Capital Grants	4,148	3,732
Total Program Revenues	11,397,828	11,223,355
<i>General Revenues:</i>		
Property Taxes	17,945,054	18,019,541
Income Taxes	7,918	9,616
Grants and Entitlements Not Restricted	29,418,329	28,667,780
Other	500,040	253,207
Total General Revenues	47,871,341	46,950,144
Total Revenues	59,269,169	58,173,499
Program Expenses		
<i>Instruction:</i>		
Regular	8,909,027	22,907,712
Special	3,192,138	6,144,889
Vocational	1,178,185	2,406,930
Adult/Continuing	4,255	83
Student Intervention Services	113,843	135,944
Other	312,590	426,643
<i>Support Services:</i>		
Pupils	1,881,716	3,234,325
Instructional Staff	678,861	1,279,663
Board of Education	133,701	213,860
Administration	1,091,357	2,698,521
Fiscal	1,110,937	1,092,549
Business	0	6,995
Operation and Maintenance of Plant	5,129,428	4,396,164
Pupil Transportation	1,982,272	2,053,008
Central	555,638	588,767
<i>Operation of Non-Instructional Services:</i>		
Food Service Operations	1,821,445	1,899,631
Community Services	332,756	337,278
Extracurricular Activities	1,508,034	2,092,182
<i>Debt Service:</i>		
Interest and Fiscal Charges	409,497	512,270
Total Expenses	30,345,680	52,427,414
Increase (Decrease) in Net Position	28,923,489	5,746,085
Net Position at Beginning of Year	(8,966,766)	N/A
Net Position at End of Year	\$ 19,956,723	\$ (8,966,766)

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

* This donates a change in table 2 and 3 in fiscal year 2017 numbers to make them more comparable to fiscal year 2018.

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$81,920 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$2,017,621. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 Program Expenses under GASB 75		\$ 30,345,680
Negative OPEB Expense under GASB 75		2,017,621
2018 Contractually Required Contribution		116,519
Adjusted 2018 Program Expenses		32,479,820
Total 2017 Program Expenses under GASB 45		52,427,414
Decrease in Program Expenses not Related to OPEB		\$ (19,947,594)

The previously discussed decrease in NPL and NOL, substantially decreased all instructional, support services and extracurricular activities expenses compared to fiscal year 2017.

Charges for services increased by \$382,138. This increase was mainly due to foundation payments for open enrollment and special education.

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Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

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	
	2018	2017	2018	2017
Instruction:				
Regular	\$ 8,909,027	\$ 22,907,712	\$ 6,872,565	\$ 20,906,106
Special	3,192,138	6,144,889	(1,819,120)	1,726,057
Vocational	1,178,185	2,406,930	281,486	1,563,256
Adult/Continuing	4,255	83	4,255	83
Student Intervention Services	113,843	135,944	113,843	135,944
Other	312,590	426,643	307,590	176,426
Support Services:				
Pupils	1,881,716	3,234,325	1,653,314	2,943,999
Instructional Staff	678,861	1,279,663	450,038	1,026,465
Board of Education	133,701	213,860	133,701	213,860
Administration	1,091,357	2,698,521	1,067,287	2,479,335
Fiscal	1,110,937	1,092,549	1,110,937	1,092,549
Business	0	6,995	0	6,995
Operation and Maintenance of Plant	5,129,428	4,396,164	4,913,211	4,150,306
Pupil Transportation	1,982,272	2,053,008	1,930,057	1,972,641 *
Central	555,638	588,767	544,838	577,967
Operation of Non-Instructional Services:				
Food Service Operations	1,821,445	1,899,631	(35,219)	41,818
Community Services	332,756	337,278	98,305	124,233
Extracurricular Activities	1,508,034	2,092,182	911,267	1,553,749
Debt Service:				
Interest and Fiscal Charges	409,497	512,270	409,497	512,270
Total Expenses	\$ 30,345,680	\$ 52,427,414	\$ 18,947,852	\$ 41,204,059

The total and net cost of services changes were primarily caused by the change in COLA related to NPL as previously discussed.

The dependence upon general revenues for governmental activities is apparent. Over 62 percent of governmental activities are supported through taxes and grants and entitlements not restricted; such revenues are 81 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, 2018

Governmental Funds

Information about the School District's major funds starts on page 18. 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 \$3,146,027 for all governmental funds.

The general fund's net change in fund balance for fiscal year 2018 was a decrease of \$5,545,469. The majority of this decrease is due to a transfer to the capital project fund (See Note 13).

The capital project fund's net change in fund balance for fiscal year 2018 was an increase of \$10,000,000.

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 2018, 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 of revenues and other financing sources were \$12,480,624 higher compared to the original budget revenues of \$45,909,382. 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 \$51,730,474, which was lower than the final budget basis revenue by \$6,659,532. Most of this difference is due to an overestimation of transfers.

Final expenditure appropriations and other financing uses of \$68,013,216 were \$9,235,421 higher than the actual expenditures of \$58,777,795 as cost savings were recognized in transfers. Final expenditure appropriations were \$22,652,714 higher than original appropriations of \$45,360,502, as expenditures and conservatively budgeted along with the amount the general fund was going to transfer to the capital projects fund was unknown.

Massillon City School District
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2018, the School District had \$38,092,026 invested in capital assets. Table 4 shows fiscal year 2018 balances compared with 2017.

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

	Governmental Activities	
	2018	2017
Land	\$ 3,707,386	\$ 3,707,386
Construction in Progress	2,649,243	179,160
Land Improvements	497,119	684,463
Buildings and Improvements	25,138,842	25,511,105
Furniture and Equipment	4,865,712	3,935,840
Vehicles	1,233,724	1,333,170
<i>Totals</i>	\$ 38,092,026	\$ 35,351,124

The \$2,740,902 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, 2018, the School District had \$11,624,435 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	
	2018	2017
General Obligation Bonds	\$ 8,170,000	\$ 8,960,000
Capital Lease	3,454,435	4,004,068
<i>Total</i>	\$ 11,624,435	\$ 12,964,068

Massillon City School District
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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

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 six (6) 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 2019, 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, 2018

	Primary Government	Component Unit
	Governmental Activities	Massillon Digital Academy
Assets		
Equity in Pooled Cash and Investments	\$ 42,737,467	\$ 562,210
Cash and Cash Equivalents with Fiscal Agent	4,163,695	0
Cash and Cash Equivalents in Segregated Accounts	89,181	0
Receivables:		
Accounts	23,645	108
Accrued Interest	38,725	0
Intergovernmental	866,392	22,707
Income Taxes	9,805	0
Property Taxes	19,099,899	0
Prepaid Items	52,452	0
Nondepreciable Capital Assets	6,356,629	0
Depreciable Capital Assets (Net)	31,735,397	9,427
<i>Total Assets</i>	<u>105,173,287</u>	<u>594,452</u>
Deferred Outflows of Resources		
Deferred Charges on Refunding	423,971	0
Pension	16,873,292	0
OPEB	530,145	0
<i>Total Deferred Outflows of Resources</i>	<u>17,827,408</u>	<u>0</u>
Liabilities		
Accounts Payable	233,638	4,076
Accrued Wages and Benefits	3,601,128	0
Contracts Payable	345,587	0
Intergovernmental Payable	952,785	54,972
Retainage Payable	202,472	0
Accrued Interest Payable	38,602	0
Accrued Vacation Leave Payable	25,272	0
Long Term Liabilities:		
Due Within One Year	1,439,392	0
Due In More Than One Year:		
Net Pension Liability	51,565,623	0
Net OPEB Liability	11,074,974	0
Other Amonts Due in More Than One Year	14,098,362	0
<i>Total Liabilities</i>	<u>83,577,835</u>	<u>59,048</u>
Deferred Inflows of Resources		
Property Taxes Levied for the Next Year	15,392,010	0
Pension	2,536,248	0
OPEB	1,537,879	0
<i>Total Deferred Inflows of Resources</i>	<u>19,466,137</u>	<u>0</u>
Net Position		
Net Investment in Capital Assets	29,203,682	9,427
Restricted For:		
Capital Outlay	3,090,593	0
Debt Service	964,147	0
Other Purposes	3,038,965	19,253
Unrestricted	(16,340,664)	506,724
<i>Total Net Position</i>	<u>\$ 19,956,723</u>	<u>\$ 535,404</u>

See accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2018

	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest	Primary Government	Component Unit
					Governmental Activities	Massillon Digital Academy
Governmental Activities						
Instruction:						
Regular	\$ 8,909,027	\$ 1,859,110	\$ 177,352	\$ 0	\$ (6,872,565)	\$ 0
Special	3,192,138	230,364	4,780,894	0	1,819,120	0
Vocational	1,178,185	13,159	883,540	0	(281,486)	0
Adult/Continuing	4,255	0	0	0	(4,255)	0
Student Intervention Services	113,843	0	0	0	(113,843)	0
Other	312,590	0	5,000	0	(307,590)	0
Support Services:						
Pupils	1,881,716	0	228,402	0	(1,653,314)	0
Instructional Staff	678,861	0	228,823	0	(450,038)	0
Board of Education	133,701	0	0	0	(133,701)	0
Administration	1,091,357	0	24,070	0	(1,067,287)	0
Fiscal	1,110,937	0	0	0	(1,110,937)	0
Operation and Maintenance of Plant	5,129,428	95,633	116,436	4,148	(4,913,211)	0
Pupil Transportation	1,982,272	21,471	30,744	0	(1,930,057)	0
Central	555,638	0	10,800	0	(544,838)	0
Operation of Non-Instructional Services:						
Food Service Operations	1,821,445	43,533	1,813,131	0	35,219	0
Community Services	332,756	0	234,451	0	(98,305)	0
Extracurricular Activities	1,508,034	575,400	21,367	0	(911,267)	0
Debt Service:						
Interest and Fiscal Charges	409,497	0	0	0	(409,497)	0
Total	\$ 30,345,680	\$ 2,838,670	\$ 8,555,010	\$ 4,148	(18,947,852)	0
Component Unit						
Massillon Digital Academy	\$ 547,109	\$ 5,430	\$ 38,824	\$ 0	0	\$ (502,855)
General Revenues						
Property Taxes Levied for:						
General Purposes					15,559,223	0
Debt Service					776,892	0
Capital Outlay					1,448,690	0
Classroom Maintenance					160,249	0
Income Taxes Levied for:						
General Purposes					7,918	0
Grants and Entitlements Not Restricted to Specific Programs					29,418,329	311,768
Investment Earnings					340,160	3,253
Miscellaneous					159,880	136
Total General Revenues					47,871,341	315,157
Change in Net Position					28,923,489	(187,698)
Net Position Beginning of Year (Restated - See Note 2)					(8,966,766)	723,102
Net Position End of Year					\$ 19,956,723	\$ 535,404

See accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Balance Sheet
Governmental Funds
June 30, 2018

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	\$ 21,277,596	\$ 15,000,000	\$ 6,459,871	\$ 42,737,467
Cash and Cash Equivalents with Fiscal Agent	0	0	4,163,695	4,163,695
Cash and Cash Equivalents in Segregated Accounts	0	0	89,181	89,181
Receivables:				
Accrued Interest	38,725	0	0	38,725
Accounts	22,941	0	704	23,645
Interfund	115,201	0	0	115,201
Intergovernmental	2,233	0	864,159	866,392
Income Taxes	9,805	0	0	9,805
Property Taxes	16,243,058	0	2,856,841	19,099,899
Prepaid Items	49,608	0	2,844	52,452
<i>Total Assets</i>	<u>\$ 37,759,167</u>	<u>\$ 15,000,000</u>	<u>\$ 14,437,295</u>	<u>\$ 67,196,462</u>
Liabilities				
Accounts Payable	\$ 185,995	\$ 0	\$ 47,643	\$ 233,638
Accrued Wages and Benefits	3,215,090	0	386,038	3,601,128
Contracts Payable	218,358	0	127,229	345,587
Intergovernmental Payable	799,788	0	152,997	952,785
Retainage Payable	193,357	0	9,115	202,472
Interfund Payable	0	0	115,201	115,201
<i>Total Liabilities</i>	<u>4,612,588</u>	<u>0</u>	<u>838,223</u>	<u>5,450,811</u>
Deferred Inflows of Resources				
Property Taxes Levied for the Next Year	13,045,018	0	2,346,992	15,392,010
Unavailable Revenue	2,634,697	0	925,701	3,560,398
<i>Total Deferred Inflows of Resources</i>	<u>15,679,715</u>	<u>0</u>	<u>3,272,693</u>	<u>18,952,408</u>
Fund Balances				
Nonspendable	54,950	0	2,844	57,794
Restricted	0	0	9,400,189	9,400,189
Committed	41,787	0	1,089,561	1,131,348
Assigned	2,077,095	15,000,000	0	17,077,095
Unassigned	15,293,032	0	(166,215)	15,126,817
<i>Total Fund Balances</i>	<u>17,466,864</u>	<u>15,000,000</u>	<u>10,326,379</u>	<u>42,793,243</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 37,759,167</u>	<u>\$ 15,000,000</u>	<u>\$ 14,437,295</u>	<u>\$ 67,196,462</u>

See 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, 2018

Total Governmental Fund Balances		\$ 42,793,243
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		38,092,026
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental	\$ 505,863	
Income Taxes	1,208	
Delinquent Property Taxes	3,053,327	3,560,398
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(38,602)
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.		423,971
The net pension and OPEB liabilities are not due and payable in the current period; therefore, the liabilities and related deferred inflows/outflows are not reported in the funds.		
Deferred Outflows - Pension	16,873,292	
Deferred Outflows - OPEB	530,145	
Net Pension Liability	(51,565,623)	
Net OPEB Liability	(11,074,974)	
Deferred Inflows - Pension	(2,536,248)	
Deferred Inflows - OPEB	(1,537,879)	(49,311,287)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
General Obligation Bonds	(8,170,000)	
Bond Premium	(512,640)	
Capital Lease Obligation	(3,454,435)	
Vacations Payable	(25,272)	
Compensated Absences	(3,400,679)	(15,563,026)
<i>Net Position of Governmental Activities</i>		\$ 19,956,723

See 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, 2018

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$ 15,644,571	\$ 0	\$ 2,391,388	\$ 18,035,959
Income Taxes	8,448	0	0	8,448
Intergovernmental	32,544,585	0	5,837,466	38,382,051
Investment Income	306,609	0	49,315	355,924
Tuition and Fees	1,758,322	0	0	1,758,322
Extracurricular Activities	68,854	0	449,090	517,944
Rentals	89,924	0	6,706	96,630
Charges for Services	424,049	0	43,534	467,583
Contributions and Donations	7,348	0	26,367	33,715
Miscellaneous	133,166	0	26,714	159,880
<i>Total Revenues</i>	<u>50,985,876</u>	<u>0</u>	<u>8,830,580</u>	<u>59,816,456</u>
Expenditures				
Current:				
Instruction:				
Regular	20,257,364	0	208,752	20,466,116
Special	4,491,634	0	1,725,413	6,217,047
Vocational	2,465,651	0	13,091	2,478,742
Adult Education	4,201	0	0	4,201
Student Intervention Services	105,792	0	8,051	113,843
Other	417,946	0	102,745	520,691
Support Services:				
Pupils	3,201,734	0	442,761	3,644,495
Instructional Staff	963,608	0	207,199	1,170,807
Board of Education	133,701	0	0	133,701
Administration	2,617,289	0	97,731	2,715,020
Fiscal	1,093,441	0	21,619	1,115,060
Operation and Maintenance of Plant	6,141,665	0	2,847,864	8,989,529
Pupil Transportation	2,073,934	0	20,132	2,094,066
Central	569,207	0	14,181	583,388
Extracurricular Activities	1,258,317	0	602,996	1,861,313
Operation of Non-Instructional Services:				
Food Service Operations	2,509	0	1,920,578	1,923,087
Community Services	68,909	0	255,806	324,715
Capital Outlay	411,715	0	136,344	548,059
Debt Service:				
Principal Retirement	171,450	0	1,168,183	1,339,633
Interest and Fiscal Charges	4,100	0	422,816	426,916
<i>Total Expenditures</i>	<u>46,454,167</u>	<u>0</u>	<u>10,216,262</u>	<u>56,670,429</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>4,531,709</u>	<u>0</u>	<u>(1,385,682)</u>	<u>3,146,027</u>
Other Financing Sources (Uses)				
Transfers In	0	10,000,000	77,178	10,077,178
Transfers Out	(10,077,178)	0	0	(10,077,178)
<i>Total Other Financing Sources (Uses)</i>	<u>(10,077,178)</u>	<u>10,000,000</u>	<u>77,178</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(5,545,469)	10,000,000	(1,308,504)	3,146,027
<i>Fund Balances Beginning of Year</i>	<u>23,012,333</u>	<u>5,000,000</u>	<u>11,634,883</u>	<u>39,647,216</u>
<i>Fund Balances End of Year</i>	<u>\$ 17,466,864</u>	<u>\$ 15,000,000</u>	<u>\$ 10,326,379</u>	<u>\$ 42,793,243</u>

See 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, 2018*

Net Change in Fund Balances - Total Governmental Funds	\$	3,146,027
<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	\$ 5,218,448	
Current Year Depreciation	<u>(2,477,546)</u>	2,740,902
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes	(90,903)	
Income Tax	(530)	
Intergovernmental	<u>(455,854)</u>	(547,287)
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	790,000	
Capital Leases	<u>549,633</u>	1,339,633
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	5,853	
Amortization of Premium on Bonds	66,866	
Amortization of Refunding Loss/Gain	<u>(55,300)</u>	17,419
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
Pension	3,686,513	
OPEB	<u>116,519</u>	3,803,032
Except for amount reported as deferred inflows/outflows, changes in the net pension and OPEB liabilities are reported as pension/OPEB expense in the statement of activities.		
Pension	16,648,686	
OPEB	<u>2,017,621</u>	18,666,307
Some expenses reported in the statement of activities do not require the use of the current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	(278,637)	
Vacations Payable	<u>36,093</u>	<u>(242,544)</u>
<i>Change in Net Position of Governmental Activities</i>	\$	<u><u>28,923,489</u></u>

See 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, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues and Other Financing Sources	\$ 45,909,382	\$ 58,390,006	\$ 51,730,474	\$ (6,659,532)
Expenditures and Other Financing Uses	45,360,502	68,013,216	58,777,795	9,235,421
Net Change in Fund Balance	548,880	(9,623,210)	(7,047,321)	2,575,889
<i>Fund Balance Beginning of Year</i>	24,964,727	24,964,727	24,964,727	0
Prior Year Encumbrances Appropriated	792,268	792,268	792,268	0
<i>Fund Balance End of Year</i>	<u>\$ 26,305,875</u>	<u>\$ 16,133,785</u>	<u>\$ 18,709,674</u>	<u>\$ 2,575,889</u>

See accompanying notes to the basic financial statements.

Massillon City School District
Stark County, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Investments	\$ 17,622	\$ 168,951
Investments	56,234	0
Accounts Receivable	0	822
<i>Total Assets</i>	73,856	\$ 169,773
 Liabilities		
Accounts Payable	0	\$ 1,400
Due to Students	0	168,373
<i>Total Liabilities</i>	0	\$ 169,773
 Net Position		
Held in Trust for Scholarships	\$ 73,856	

See 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, 2018

	Private Purpose Trust
Additions	
Gifts and Contributions	\$ 18,000
Investment Earnings	199
<i>Total Additions</i>	18,199
 Deductions	
Payments in Accordance with Trust Agreements	35,500
<i>Change in Net Position</i>	(17,301)
<i>Net Position Beginning of Year</i>	91,157
<i>Net Position End of Year</i>	\$ 73,856

See 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, 2018

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, 2018

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, 2018

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 major funds are described below:

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

Capital Projects Fund - The capital projects fund accumulates money for one or more capital projects in accordance with the Ohio Revised Code Section 5705.13.

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.

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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, for pension and OPEB. 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 and OPEB plans are explained in Notes 10 and 11.

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 until that time. For the School District, deferred inflows of resources include property taxes, pension, OPEB and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 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

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may include delinquent property taxes, income taxes, grants and entitlements and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 10 and 11).

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.

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."

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During fiscal year 2018, 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.

During the year 2018, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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.

For the fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

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 2018 amounted to \$306,609, which includes \$128,549 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as "equity in pooled cash and investments." Investments with an original maturity of more than three months that are not made from the pool are reported as "investments."

G. 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.

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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. In fiscal year 2018 the School District changed the capitalization threshold prospectively from \$500 to \$5,000. 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.

J. Pensions and Other Postemployment Benefits (OPEB)

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

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K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

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, 2018, 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.

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.

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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 2018.

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, 2018, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments*.

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GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the accrual financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the School District.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. These changes were incorporated in the School District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the School District.

Net Position, June 30, 2017	\$ 5,250,082
Adjustments:	
Net OPEB Liability	(14,298,768)
Deferred Outflow-Payments Subsequent to Measurement Date	81,920
Restated Net Position, July 1, 2017	<u>\$ (8,966,766)</u>

Other than employer contributions subsequent to the measurement date, the School District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

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NOTE 3: ACCOUNTABILITY

Fund balances at June 30, 2018, included the following individual fund deficit:

	<u>Deficit</u>
Nonmajor Fund:	
Vocational Education Enhancement	\$ 238
Public Preschool Grants	55,378
Title VI-B	52,081
Miscellaneous State Grants	1,196
Title I	47,557
Title VI-R	9,765

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.

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Net Change in Fund Balance

GAAP Basis	\$	(5,545,469)
Net Adjustment for Revenue Accruals		894,869
Net Adjustment for Expenditure Accruals		293,057
Funds Budgeted Elsewhere		(106,085)
Adjustment for Encumbrances		<u>(2,583,693)</u>
Budget Basis	\$	<u>(7,047,321)</u>

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
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;

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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);
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.

Segregated Cash, Cash with Fiscal/Escrow Agent

Huntington Bank acts as a fiscal agent for the School District. 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. The carrying amount of the deposits is reported as “Cash in Segregated Accounts.”

Investments

As of June 30, 2018, the School District had the following investments and maturities:

Ratings	Investment	Measurement Amount	Investment Maturities in Months			% Total
			0-12	13-36	Over 36	
	Net Asset Value (NAV):					
AAAm	First American Treasury Market	\$ 11,247	\$ 11,247	\$ 0	\$ 0	0.03%
AAAm	STAR Ohio	10,219,774	10,219,774	0	0	27.26%
	Fair Value:					
	Federal Farm Credit					
AA+	Bank (FFCB)	242,378	242,378	0	0	0.65%
	Federal National Mortgage					
AA+	Association (FNMA)	7,894,738	0	6,769,093	1,125,645	21.05%
AA+	Federal Home Loan Bank (FHLB)	1,547,737	0	1,547,737	0	4.13%
AA+	Federal Home Loan Mortgage (FHLM)	3,450,525	1,832,943	1,133,332	484,250	9.20%
A-1+	Commercial Paper	12,180,368	12,180,368	0	0	32.49%
N/A	Negotiable Certificates of Deposit	1,944,953	247,566	1,697,387	0	5.19%
	Total Investments	\$ 37,491,720	\$ 24,734,276	\$ 11,147,549	\$ 1,609,895	100.00%

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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, 2018. The School District's investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Market indicators and industry and economic events are also monitored which could require the need to acquire further market data (Level 2 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 2018 included STAR Ohio, Commercial Paper, certificates of deposit, 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, 2018, is 49 days. The School District has no investment policy dealing with investment credit risk beyond the requirements in state statutes.

Segregated Cash, Cash with Fiscal/Escrow Agent - The operations facility lease fund is maintained separately from the School District's deposits. The carrying amount of the deposits is reported as "Cash in Segregated Accounts."

Concentration of Credit Risk The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

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NOTE 6: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance 06/30/2017	Additions	Deletions	Balance 06/30/2018
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 3,707,386	\$ 0	\$ 0	\$ 3,707,386
Construction in Progress	179,160	2,470,083	0	2,649,243
<i>Total Capital Assets Not Being Depreciated</i>	<u>3,886,546</u>	<u>2,470,083</u>	<u>0</u>	<u>6,356,629</u>
Capital Assets, Being Depreciated:				
Land Improvements	6,278,413	0	0	6,278,413
Buildings and Improvements	56,048,496	1,095,990	0	57,144,486
Furniture and Fixtures	12,760,758	1,439,459	(1,614)	14,198,603
Vehicles	3,923,681	212,916	(125,157)	4,011,440
<i>Total Capital Assets, Being Depreciated</i>	<u>79,011,348</u>	<u>2,748,365</u>	<u>(126,771)</u>	<u>81,632,942</u>
Less Accumulated Depreciation:				
Land Improvements	(5,593,950)	(187,344)	0	(5,781,294)
Buildings and Improvements	(30,537,391)	(1,468,253)	0	(32,005,644)
Furniture and Fixtures	(8,824,918)	(509,587)	1,614	(9,332,891)
Vehicles	(2,590,511)	(312,362)	125,157	(2,777,716)
<i>Total Accumulated Depreciation</i>	<u>(47,546,770)</u>	<u>(2,477,546) *</u>	<u>126,771</u>	<u>(49,897,545)</u>
<i>Total Capital Assets, Being Depreciated, Net</i>	<u>31,464,578</u>	<u>270,819</u>	<u>0</u>	<u>31,735,397</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 35,351,124</u>	<u>\$ 2,740,902</u>	<u>\$ 0</u>	<u>\$ 38,092,026</u>

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* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,167,798
Special	2,402
Vocational	68,801
Adult/Continuing	54
Other	938
Support Services:	
Pupil	2,784
Instructional Staff	462
Administration	2,068
Fiscal	434
Operation and Maintenance of Plant	524,646
Pupil Transportation	298,629
Central	14,113
Operation of Non-Instructional Services:	
Food Services Operations	17,599
Community Services	13,708
Extracurricular Activities	<u>363,110</u>
Total Depreciation Expense	<u><u>\$ 2,477,546</u></u>

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 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of January 1, 2017, 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 2018 represents collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 became a lien December 31, 2016, were levied after April 1, 2017 and are collected in 2018 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, 2018, are available to finance fiscal year 2018 operations. 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, 2018 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 2018 taxes were collected are:

	2017 Second Half Collections		2018 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$ 371,420,180	93.07%	\$ 380,064,720	93.13%
Public Utility Personal Property	27,641,940	6.93%	28,022,280	6.87%
	\$ 399,062,120	100.00%	\$ 408,087,000	100.00%
Taxrate per \$1,000 assessed valuation	\$ 55.70		\$ 55.30	

NOTE 8: RECEIVABLES

Receivables at June 30, 2018 consisted of taxes, accounts (miscellaneous, rent 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 2018, the School District contracted with Leonard Insurance/Ohio Casualty for various types of insurance as follows:

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<u>Coverage</u>	<u>Amount</u>
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 2018 the School District's premiums were \$1,673.34 for family coverage and \$688.83 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 2018, the School District's cost was \$215.78 and \$45.83 for family coverage and \$87.47 and \$18.46 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 statewide, cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor 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 year of service; 2.2 percent for the first 30 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.

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

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, 2018, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018.

The School District’s contractually required contribution to SERS was \$738,570 for fiscal year 2018. Of this amount, \$36,222 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 Web site 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.

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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 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, 2018, 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 2018 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$2,947,943 for fiscal year 2018. Of this amount, \$523,537 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2017, 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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	SERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.14986160%	0.17937840%	
Prior Measurement Date	0.15891950%	0.17916856%	
Change in Proportionate Share	<u>-0.00905790%</u>	<u>0.00020984%</u>	
Proportionate Share of the Net			
Pension Liability	\$ 8,953,900	\$ 42,611,723	\$ 51,565,623
Pension Expense	\$ (475,421)	\$ (16,173,265)	\$ (16,648,686)

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, 2018 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between Expected and			
Actual Experience	\$ 385,344	\$ 1,645,463	\$ 2,030,807
Changes of Assumptions	463,012	9,319,652	9,782,664
Changes in Proportion and Differences between			
School District Contributions and Proportionate			
Share of Contributions	158,325	1,214,983	1,373,308
School District Contributions Subsequent to the			
Measurement Date	738,570	2,947,943	3,686,513
Total Deferred Outflows of Resources	<u>\$ 1,745,251</u>	<u>\$ 15,128,041</u>	<u>\$ 16,873,292</u>
Deferred Inflows of Resources			
Differences between Expected and			
Actual Experience	\$ 0	\$ 343,434	\$ 343,434
Net Difference between Projected and			
Actual Earnings on Pension Plan Investments	42,501	1,406,236	1,448,737
Changes in Proportion and Differences between			
School District Contributions and Proportionate			
Share of Contributions	500,677	243,400	744,077
Total Deferred Inflows of Resources	<u>\$ 543,178</u>	<u>\$ 1,993,070</u>	<u>\$ 2,536,248</u>

\$3,686,513 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 the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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Fiscal Year Ending June 30:	SERS	STRS	Total
2019	\$ 205,415	\$ 2,197,778	\$ 2,403,193
2020	442,587	4,110,743	4,553,330
2021	24,235	3,124,067	3,148,302
2022	(208,734)	754,440	545,706
	\$ 463,503	\$ 10,187,028	\$ 10,650,531

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 terminations). 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, 2017, 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	2.50 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, 2017 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 most recent 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:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
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	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. 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.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's Proportionate Share of the Net Pension Liability	\$ 12,425,686	\$ 8,953,900	\$ 6,045,571

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Actuarial Assumptions – STRS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments	0.00 percent effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

*The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. 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

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included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

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, 2017, calculated using the current period discount rate assumption of 7.45 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's Proportionate Share of the Net Pension Liability	\$ 61,082,455	\$ 42,611,723	\$ 27,052,900

Assumption Changes since the Prior Measurement Date

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Benefit Term Changes since the Prior Measurement Date

Effective July 1, 2017, the COLA was reduced to zero.

NOTE 11: DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the School District's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates annually.

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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 OPEB are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB 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)

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 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. 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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, 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 pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. 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

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statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School District's surcharge obligation was \$89,165.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$116,519 for fiscal year 2018. Of this amount \$90,507 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. 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 to offer the Plan and gives the Retirement Board discretionary 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	SERS	STRS	Total
Proportion of the Net OPEB Liability			
Current Measurement Date	0.15188860%	0.17937840%	
Prior Measurement Date	0.16547982%	0.17916856%	
Change in Proportionate Share	-0.01359122%	0.00020984%	
Proportionate Share of the Net OPEB Liability	\$ 4,076,291	\$ 6,998,683	\$ 11,074,974
OPEB Expense	\$ 116,395	\$ (2,134,016)	\$ (2,017,621)

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 404,007	\$ 404,007
Changes in Proportionate Share and Differences between School District Contributions and Proportionate Share of Contributions	0	9,619	9,619
School District Contributions Subsequent to the Measurement Date	116,519	0	116,519
Total Deferred Outflows of Resources	\$ 116,519	\$ 413,626	\$ 530,145
Deferred Inflows of Resources			
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	\$ 10,765	\$ 299,140	\$ 309,905
Changes of Assumptions	386,819	563,768	950,587
Changes in Proportionate Share and Differences between School District Contributions and Proportionate Share of Contributions	277,387	0	277,387
Total Deferred Inflows of Resources	\$ 674,971	\$ 862,908	\$ 1,537,879

\$116,519 reported as deferred outflows of resources related to OPEB resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	\$ (243,346)	\$ (99,808)	\$ (343,154)
2020	(243,346)	(99,808)	(343,154)
2021	(185,587)	(99,808)	(285,395)
2022	(2,692)	(99,808)	(102,500)
2023	0	(25,023)	(25,023)
Thereafter	0	(25,027)	(25,027)
	\$ (674,971)	\$ (449,282)	\$ (1,124,253)

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). 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.

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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 OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Prior Measurement Date	2.98 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in

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the June 30, 2015 five-year experience study, are summarized as follows:

<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 discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5 percent decreasing to 4.0 percent) and higher (8.5 percent decreasing to 6.0 percent) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
	School District's Proportionate Share of the Net OPEB Liability	\$ 4,922,640	\$ 4,076,291
	1% Decrease	Current Trend Rate	1% Increase
	School District's Proportionate Share of the Net OPEB Liability	\$ 3,307,605	\$ 4,076,291

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Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6.00 percent to 11.00 percent, initial, 4.50 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

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:

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
	<u>100.00 %</u>	

*Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

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	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's Proportionate Share of the Net OPEB Liability	\$ 9,395,620	\$ 6,998,683	\$ 5,104,320

	1% Decrease	Current Trend Rate	1% Increase
School District's Proportionate Share of the Net OPEB Liability	\$ 4,862,385	\$ 6,998,683	\$ 9,810,302

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.

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.

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NOTE 13: INTERFUND ACTIVITY

Interfund Balances

Interfund balances at June 30, 2018 consist of the following individual fund receivables and payables:

Interfund Payable	Interfund Receivable General
<i>Nonmajor Special Revenue Funds:</i>	
Title VI-B	\$ 35,011
Carl Perkins Grant Fund	101
Title VI-R Fund	18,097
Title I	36,761
Vocational Education Enhancement Fund	270
Public Preschool	13,735
Other Local Grants	11,226
Total	\$ 115,201

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 2018, the general fund transferred \$10,000,000 to the building fund. This represented funding for future building projects. During the fiscal year, the general fund also transferred \$77,178 to provide additional resources for current operations to the student activities fund. Interfund transfers between governmental funds are eliminated in the statement of activities.

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NOTE 14: LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2018 were as follows:

	Restated Outstanding 6/30/2017	Additions	Deductions	Outstanding 6/30/2018	Due Within One Year
Governmental Activities:					
General Obligation Bonds:					
2011 Obligation Various Purpose Bonds					
Serial Bonds	\$ 460,000	\$ 0	\$ (150,000)	\$ 310,000	\$ 150,000
Term Bonds	1,070,000	0	0	1,070,000	0
2011 Refunding Bonds					
Serial Bonds	7,430,000	0	(640,000)	6,790,000	665,000
Unamortized Premium	579,506	0	(66,866)	512,640	0
Total General Obligation Bonds	9,539,506	0	(856,866)	8,682,640	815,000
Net Pension Liability:					
Pension	71,604,559	0	(20,038,936)	51,565,623	0
OPEB	14,298,768	0	(3,223,794)	11,074,974	0
Total Net Pension Liability	85,903,327	0	(23,262,730)	62,640,597	0
Other Long-Term Obligations:					
Capital Leases	4,004,068	0	(549,633)	3,454,435	389,301
Compensated Absences	3,122,042	429,330	(150,693)	3,400,679	235,091
Total General Long-Term Obligations	\$ 102,568,943	\$ 429,330	\$ (24,819,922)	\$ 78,178,351	\$ 1,439,392

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.

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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 2018 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 2018 was \$55,300.

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. There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are primarily made from the General Fund. For additional information related to the net pension liability and net OPEB liability see Notes 10 and 11.

The following is a summary of the School District's annual debt service principal and interest payments on debt outstanding at June 30, 2018:

Fiscal Year	General Obligation Bonds	
Ending June 30,	Principal	Interest
2019	\$ 815,000	\$ 287,612
2020	890,000	258,612
2021	935,000	225,456
2022	975,000	192,853
2023	1,050,000	157,484
2024-2026	3,505,000	214,031
Total	\$ 8,170,000	\$ 1,336,048

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, 2018 the District had spent \$827,181 of the proceeds from the lease. The proceeds spent are in construction in progress therefore no depreciation has been calculated as of June 30, 2018. 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, 2018.

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	Amount
Fiscal Year Ending June 30, 2019	\$ 490,861
2020	490,862
2021	490,861
2022	490,862
2023	490,862
2024-2026	1,472,585
	3,926,893
Less: amount representing interest	472,458
Present value of net minimum lease payments	\$ 3,454,435

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 \$158,757 to SPARCC during the fiscal year 2018. 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, 6057 Strip Avenue NW, Canton, Ohio 44720.

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

The School District 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 General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2018, if applicable, cannot be determined at this time.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

B. School District Funding

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 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 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.

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, 2018, the School District had the following contractual commitment:

	Amount of Contracts	Expenditures as of 6/30/18	Amount Remaining on Contracts
Athletic Project	\$ 2,859,739	\$ 1,968,572	\$ 891,167
Concession Stand Project	64,400	9,795	54,605
Update to Track and Field	165,500	150,772	14,728
Washington High School Roof	449,104	159,324	289,780
Operations Facility	387,000	302,655	84,345
Replace HVAC Washington High School	581,293	58,125	523,168
	<u>\$ 4,507,036</u>	<u>\$ 2,649,243</u>	<u>\$ 1,857,793</u>

B. Encumbrance Commitments

Outstanding encumbrances for governmental funds include \$2,072,983 in the general fund and \$1,206,427 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.

Massillon City School District
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Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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

	<u>Capital Improvements</u>
Set-Aside Restricted Balance as of June 30, 2017	\$ 0
Current Year Set-Aside Requirement	694,411
Current Year Qualifying Disbursements	(884,608)
Current Year Offsets	<u>(283,145)</u>
 Totals	 <u>\$ (473,342)</u>
 Balance Carried Forward to Fiscal Year 2019	 <u>\$ 0</u>
 Set-Aside Restricted Balance as of June 30, 2018	 <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 2018, 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 2018, the School District waived the per student fee.

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Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable for:				
Unclaimed Monies	\$ 5,342	\$ 0	\$ 0	\$ 5,342
Prepays	49,608	0	2,844	52,452
	<u>54,950</u>	<u>0</u>	<u>2,844</u>	<u>57,794</u>
Restricted for:				
Debt Service	0	\$ 0	854,620	854,620
Capital Outlay	0	0	5,915,353	5,915,353
Other Purposes	0	0	87,892	87,892
Food Services	0	0	773,203	773,203
Classroom Facilities Maintenance	0	0	1,417,958	1,417,958
Student Activities Programs	0	0	351,163	351,163
Total Restricted	<u>0</u>	<u>0</u>	<u>9,400,189</u>	<u>9,400,189</u>
Committed for:				
Termination of Benefits	41,787	0	0	41,787
Capital Outlay	0	0	1,089,561	1,089,561
Total Committed	<u>41,787</u>	<u>0</u>	<u>1,089,561</u>	<u>1,131,348</u>
Assigned for:				
Subsequent Years Appropriations	4,112	0	0	4,112
Encumbrances:				
Instruction	181,688	0	0	181,688
Support Services	1,753,195	0	0	1,753,195
Community Services	26,390	0	0	26,390
Extracurricular Activities	111,710	0	0	111,710
Building Projects	0	15,000,000	0	15,000,000
Total Assigned	<u>2,077,095</u>	<u>15,000,000</u>	<u>0</u>	<u>17,077,095</u>
Unassigned	15,293,032		(166,215)	15,126,817
<i>Total Fund Balance</i>	<u>\$ 17,466,864</u>	<u>\$ 15,000,000</u>	<u>\$ 10,326,379</u>	<u>\$ 42,793,243</u>

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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.

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.

Budgetary Process Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not require the School to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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.

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 acquisition value 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 \$506,724 and \$19,253 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.

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.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

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 2018.

B. Deposits

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 Academy, 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

C. Investments

As of June 30, 2018, the Academy had no investments.

D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance 07/01/2017	Additions	Disposals	Balance 06/30/2018
Furniture	\$ 2,646	\$ 0	\$ 0	\$ 2,646
Computer Equipment	50,600	0	(13,413)	37,187
Vehicles	27,442	0	0	27,442
Less: Accumulated Depreciation	(59,209)	(10,960)	12,321	(57,848)
 Total Capital Assets, Net	 \$ 21,479	 \$ (10,960)	 \$ (1,092)	 \$ 9,427

E 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;

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

3. Comply with the requirements and procedures for financial audits by the Auditor of the State.

F. 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 2018, the fee per student was waived by the School District.

G. Purchased Services

For the year ended June 30, 2018, purchased service expenses were recognized for professional services rendered by various vendors as follows:

Massillon Board of Education	\$ 481,074
SPARCC	13,229
Other	<u>29,860</u>
Total Purchased Services	<u>\$ 524,163</u>

For the year ended June 30, 2018, the Academy recognized \$481,074 in expenses for educational services and curriculum provided by the Massillon Board of Education.

H. 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, 2018, 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.

I. Risk Management

The Digital Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended 2018, 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.

Massillon City School District
Stark County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

J. 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 School for fiscal year 2018. The School appealed their fiscal year 2018 FTE review, which was settled by ODE.

As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 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.

K. Subsequent Event

On January 15, 2019 the Massillon City School District informed the Academy of their intent to terminate its sponsorship agreement and close the Academy at the end of the 2018-2019 school year. The Academy has asked for a meeting to discuss the closure.

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

	2018	2017	2016	2015	2014
<i>School Employees Retirement System (SERS)</i>					
School District's Proportion of the Net Pension Liability	0.14986160%	0.15891950%	0.15948870%	0.16572900%	0.16572900%
School District's Proportionate Share of the Net Pension Liability	\$ 8,953,900	\$ 11,631,441	\$ 9,100,580	\$ 8,387,450	\$ 9,855,372
School District's Covered Payroll	\$ 5,074,364	\$ 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	176.45%	152.70%	178.44%	119.83%	148.66%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%
<i>State Teachers Retirement System (STRS)</i>					
School District's Proportion of the Net Pension Liability	0.17937840%	0.17916856%	0.17250585%	0.17463428%	0.17463428%
School District's Proportionate Share of the Net Pension Liability	\$ 42,611,723	\$ 59,973,118	\$ 47,675,571	\$ 42,477,101	\$ 50,598,444
School District's Covered Payroll	\$ 19,794,529	\$ 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	215.27%	310.11%	305.62%	270.00%	242.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

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

Massillon City School District
Stark County, Ohio
Required Supplementary Information
Schedule of the School District's Contributions - Pension
Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>School Employees Retirement System (SERS)</i>				
Contractually Required Contribution	\$ 738,570	\$ 710,411	\$ 1,066,418	\$ 672,202
Contributions in Relation to the Contractually Required Contribution	<u>(738,570)</u>	<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>	<u>\$ 0</u>
School District's Covered Payroll	\$ 5,470,889	\$ 5,074,364	\$ 7,617,271	\$ 5,100,167
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%
<i>State Teachers Retirement System (STRS)</i>				
Contractually Required Contribution	\$ 2,947,943	\$ 2,771,234	\$ 2,707,468	\$ 2,183,952
Contributions in Relation to the Contractually Required Contribution	<u>(2,947,943)</u>	<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>	<u>\$ 0</u>
School District's Covered Payroll	\$ 21,056,736	\$ 19,794,529	\$ 19,339,057	\$ 15,599,657
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

See accompanying notes to the required supplementary information.

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

See accompanying notes to the required supplementary information.

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See accompanying notes to the required supplementary information.

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

	<u>2018</u>	<u>2017</u>
<i>School Employees Retirement System (SERS)</i>		
School District's Proportion of the Net OPEB Liability	0.15188860%	0.16547982%
School District's Proportionate Share of the Net OPEB Liability	\$ 4,076,291	\$ 4,716,787
School District's Covered Payroll	\$ 5,074,364	\$ 7,617,271
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	80.33%	61.92%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%
<i>State Teachers Retirement System (STRS)</i>		
School District's Proportion of the Net OPEB Liability	0.17937840%	0.17916856%
School District's Proportionate Share of the Net OPEB Liability	\$ 6,998,683	\$ 9,581,981
School District's Covered Payroll	\$ 19,794,529	\$ 19,339,057
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.36%	49.55%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

Massillon City School District
Stark County, Ohio
Required Supplementary Information
Schedule of the School District's Contributions - OPEB
Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>School Employees Retirement System (SERS)</i>				
Contractually Required Contribution (1)	\$ 116,519	\$ 81,920	\$ 102,750	\$ 152,170
Contributions in Relation to the Contractually Required Contribution	<u>(116,519)</u>	<u>(81,920)</u>	<u>(102,750)</u>	<u>(152,170)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered Payroll	\$ 5,470,889	\$ 5,074,364	\$ 7,617,271	\$ 5,100,167
OPEB Contributions as a Percentage of Covered Payroll (1)	2.13%	1.61%	1.35%	2.98%
<i>State Teachers Retirement System (STRS)</i>				
Contractually Required Contribution	\$ 0	\$ 0	\$ 0	\$ 0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered Payroll	\$ 21,056,736	\$ 19,794,529	\$ 19,339,057	\$ 15,599,657
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%

(1) Includes surcharge

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 116,937	\$ 112,643	\$ 39,429	\$ 88,813	\$ 290,846	\$ 265,038
<u>(116,937)</u>	<u>(112,643)</u>	<u>(39,429)</u>	<u>(88,813)</u>	<u>(290,846)</u>	<u>(265,038)</u>
<u>\$ 0</u>					
\$ 6,999,242	\$ 6,629,335	\$ 7,168,848	\$ 4,055,410	\$ 6,991,492	\$ 9,542,043
1.67%	1.70%	0.55%	2.19%	4.16%	2.78%
\$ 157,325	\$ 208,868	\$ 200,544	\$ 201,544	\$ 210,552	\$ 213,324
<u>(157,325)</u>	<u>(208,868)</u>	<u>(200,544)</u>	<u>(201,544)</u>	<u>(210,552)</u>	<u>(213,324)</u>
<u>\$ 0</u>					
\$ 15,732,546	\$ 20,886,800	\$ 20,054,354	\$ 20,154,438	\$ 21,055,192	\$ 21,332,400
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

See accompanying notes to the required supplementary information.

Massillon City School District
Stark County, Ohio
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
 - 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 was updated to the following:
 - 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 disable member was updated to the following:
 - 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.

Changes in Benefit Terms - SERS

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in Assumptions – STRS

For fiscal year 2018, the Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms - STRS

Effective for fiscal year 2018, the cost-of-living adjustment (COLA) was reduced to zero.

Massillon City School District
Stark County, Ohio
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

Note 2 - Net OPEB Liability

Changes in Assumptions – SERS

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

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	044354-3L70-2018		340,574	
National School Lunch Program	10.555	044354-3L60-2018		1,219,357	175,855
Summer Food Service Program for Children	10.559	044354-3GE0-2018		24,258	
Total Nutrition Cluster				<u>1,584,189</u>	<u>175,855</u>
Total U.S. Department of Agriculture				<u>1,584,189</u>	<u>175,855</u>
U.S. DEPARTMENT OF EDUCATION					
<i>Passed Through Ohio Department of Education</i>					
Title I Grants to Local Educational Agencies	84.010	044354-3M00-2017		157,236	
Title I Grants to Local Educational Agencies	84.010	044354-3M00-2018		1,149,252	
Total Title I Grants to Local Educational Agencies				<u>1,306,488</u>	
Special Education Grants to States	84.027	044354-3M20-2017		77,873	
Special Education Grants to States	84.027	044354-3M20-2018		834,671	
Early Childhood Special Education	84.173	044354-3C50-2018		15,196	
Total Special Education Cluster				<u>927,740</u>	
Career and Technical Education Basic Grants to States	84.048	044354-3L90-2017		69	
Career and Technical Education Basic Grants to States	84.048	044354-3L90-2018		78,570	
Total Career and Technical Education Basic Grants to States				<u>78,639</u>	
Supporting Effective Instruction State Grants	84.367	044354-3Y60-2017		6,442	
Supporting Effective Instruction State Grants	84.367	044354-3Y60-2018		148,130	
Total Supporting Effective Instruction State Grants				<u>154,572</u>	
English Language Acquisition State Grants	84.365	044354-3Y70-2018		5,317	
Total English Language Acquisition State Grants				<u>5,317</u>	
Student Support and Academic Enrichment Program	84.424	044354-3HI0-2018		17,072	
Total Student Support and Academic Enrichment Program				<u>17,072</u>	
Total U.S. Department of Education				<u>2,489,828</u>	
Total Expenditures of Federal Awards				<u>\$4,074,017</u>	<u>\$175,855</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, 2018**

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, 2018. 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 Government, it is not intended to and does not present the financial position or changes in net position 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.

OHIO AUDITOR OF STATE KEITH FABER



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, each major fund, 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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 6, 2019 wherein we noted the District adopted Government Standards Board Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*.

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2018-001.

District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs and / or corrective action plan. We did not subject the District's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Keith Faber
Auditor of State
Columbus, Ohio

March 6, 2019

OHIO AUDITOR OF STATE KEITH FABER



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 the 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 the Massillon City School District's major federal programs for the year ended June 30, 2018. 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, Special Education Cluster and Title 1

As described in findings 2018-002 and 2018-003 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2018-002	10.553; 10.555; 10.559	Child Nutrition Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles
2018-002	84.027; 84.173	Special Education Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles
2018-002	84.010	Title 1 Grants to Local Educational Agencies	Activities Allowed or Unallowed Allowable Costs/Cost Principles
2018-003	84.010	Title 1 Grants to Local Educational Agencies	Procurement

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, Special Education Cluster, and Title 1

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Child Nutrition Cluster, Special Education Cluster and Title 1* paragraph, the 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, Special Education Cluster and Title 1* for the year ended June 30, 2018.

Other Matters

The District's responses to our noncompliance findings are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. We did not subject the District's responses to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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 certain deficiencies in internal control over compliance that we consider to be material weaknesses, described in the accompanying schedule of findings and questioned costs as items 2018-002 and 2018-003.

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

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



Keith Faber
Auditor of State

Columbus, Ohio

March 6, 2019

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**MASSILLON CITY SCHOOL DISTRICT
STARK COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
2 CFR § 200.515
JUNE 30, 2018**

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)?	Yes
(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 Title 1 Grants Local Governments - 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 (CFDA 10.553, 10.555, 10.559) Special Education Cluster (CFDA 84.027, 84.173) Title 1 Grants Local Governments (CFDA 84.010)
(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**

Finding For Recovery Repaid Under Audit

<i>Finding Number</i>	2018-001
-----------------------	----------

NONCOMPLIANCE

Section 17.06 of the Master Agreement between the Massillon Board of Education and the Massillon Education Association provides for severance pay enhancement. Section 17.0613 provides any eligible bargaining unit member who elects to retire into State Teachers Retirement System (STRS) shall receive \$400 for each year of teaching service in the Massillon City School District.

During fiscal year 2018, an employee retired from the District with 31 years of service, which would entitle them to a \$12,400 severance pay enhancement. However, the District actually paid the employee a \$24,800 severance pay enhancement.

The employee overpaid is Nancy Hannon and the amount is \$12,400.

The District should review contracts/negotiated agreements along with severance calculations to help ensure employees are paid the proper amounts.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Nancy Hannon in the amount of \$12,400 and in favor of the Termination Benefits Fund.

As of November 12, 2018, Nancy Hannon repaid the full amount of \$12,400 via check number 0831010328.

Official's Response:

See Corrective Action Plan

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Time and Effort Documentation

Finding Number	2018-002		
CFDA Title and Number	Child Nutrition Cluster (10.553; 10.555; 10.559) Special Education Cluster (84.027; 84.173) Title 1 Grants to Local Education Agencies (84.010)		
Federal Award Identification Number / Year	2018		
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?	Yes	Finding Number? (if repeat)	2017-001

QUESTIONED COST / NONCOMPLIANCE / MATERIAL WEAKNESS

2 CFR § 400.1 and 2 CFR § 3474.1 give regulatory effect to the U.S. Department of Agriculture and 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 2018-002 (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 2018, time and effort documentation was not maintained for 2 of 40 special education pays tested. As a result, Special Education Cluster payroll expenditures in the amount of \$144 were unsupported. The projected amount of \$2,776 will be considered a questioned cost.

In addition, time and effort documentation was not maintained for 2 of 40 food service pays tested. As a result, Child Nutrition Cluster payroll expenditures in the amount of \$272 were unsupported. The projected amount of \$6,294 will be considered a questioned cost.

In addition, time and effort documentation was not maintained for 13 of 40 Title I pays tested. As a result, Title I payroll expenditures in the amount of \$12,276 were unsupported. The projected amount of \$147,983 will be considered a questioned cost.

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 2 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 Corrective Action Plan

Federal Procurement

Finding Number	2018-003		
CFDA Title and Number	Title 1 Grants to Local Educational Agencies (84.010_		
Federal Award Identification Number / Year	2018		
Federal Agency	Department of Education		
Compliance Requirement	Procurement and Suspension and Debarment		
Pass-Through Entity	Ohio Department of Education		
Repeat Finding from Prior Audit?	No	Finding Number? (if repeat)	NA

QUESTIONED COST / NONCOMPLIANCE / MATERIAL WEAKNESS

2 C.F.R § 200.320 provides the non-federal entity must use one of the following methods of procurement:

(a) Procurement by micro-purchases. Procurement by micro-purchase is the acquisition of supplies or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold (§ 200.67 Micro-purchase). To the extent practicable, the non-Federal entity must distribute micro-purchases equitably among qualified suppliers. Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable.

(b) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources.

(c) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm fixed price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for procuring construction, if the conditions in paragraph (c)(1) of this section apply.

The District's Procurement - Federal Grants/Funds Policy (6325) states the District shall utilize the following methods of procurement :

(a) Small Purchases - Small purchase procedures provide for relatively simple and informal procurement methods for securing services, supplies, and other property that does not exceed the competitive bid threshold of \$ 25,000. Small purchase procedures require that price or rate quotations shall be obtained from three (3) qualified sources.

(b) Sealed Bids - Sealed, competitive bids shall be obtained when the purchase of, and contract for, single items of supplies, materials, or equipment which amounts to \$25,000 and when the Board determines to build, repair, enlarge, improve, or demolish a school building/facility the cost of which will exceed \$25,000.

FINDING 2018-003 (Continued)

For two out of eight (25%) vendors tested and paid with Federal Title I grant funds, the District did not use an appropriate procurement method (for example obtaining quotes).

As a result, Title I non-payroll expenditures in the amount of \$49,273 were unsupported. The projected amount of \$190,036 will be considered a questioned cost.

The District should use the appropriate procurement method when entering into a transaction with federal grant funds.

Official's Response:

See Corrective Action Plan



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, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	The District did not maintain time and effort documentation	Repeated	See finding 2018-002 and 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 AUDIT FINDINGS AND QUESTIONED COSTS
2 CFR 200.511(c)
June 30, 2018

2018-001 Finding for Recovery Repaid Under Audit

The reason for the overpayment in Severance Pay Enhancement was an error when processing the check June 30, 2018. The Severance Pay was listed; the Severance Pay Enhancement of \$12,400 was listed; as well as the Total for both. The Total for both was mistaken for the Severance Pay only; and the Severance Pay Enhancement doubling this payment to \$24,800.

Corrective Action Plan

The Payroll Administrator will calculate the Severance Pay and the Severance Pay Enhancement. The Treasurer will review the calculations signing off as correct.

In place, December 31, 2018.

2018-002 Time and Effort documentation was not maintained for Employees paid from Food Service and IDEA-B Funds

The reasons for the recurrence:

The State and Federal Director was relieved of his duties effective May 9, 2018 with no one to replace him. Certification Forms were sent to the Principals; along with a list of staff members being paid with Federal dollars. However, not all certifications were returned signed. The reason being that some employees left the District and/or some were substitutes.

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 State and Federal Director and the Food Service Director with the direction to get a Semi-Annual Certification signed by each staff member on the report.
3. The Food Service Certificates are returned to the Treasurer's Office; the State and Federal Director retains Certificates of staff paid with Federal dollars.
4. Dollars from the General Fund will continue to pay student workers and substitutes.

In place February 28, 2019.

2018-003 Procurement and Suspension and Debarment

The reason for the Finding was quotes were not obtained for Title 1 non-payroll expenditures for \$49,273.

Corrective Action Plan

Policies were reviewed and implementation of the following procedures for expenditures purchased with Federal dollars:

1. All expenditures must be reviewed at the Administrative Cabinet meeting prior to purchase.
2. If the expense is available through a sole-source vendor, a letter explaining why quotes are not feasible must be reviewed by the Treasurer and retained by the State and Federal Director.

In place, February 28, 2019.

A handwritten signature in black ink that reads "Sandra J. Moeglin". The signature is written in a cursive style with a large initial "S" and a distinct "J" and "M".

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

OHIO AUDITOR OF STATE KEITH FABER



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
APRIL 23, 2019**