

**MASCONOMET REGIONAL SCHOOL DISTRICT**

**Financial Statements**

**For the Year Ended June 30, 2017**

**(With Accountants' Report Thereon)**

*Giusti, Hingston and Company*  
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## INDEPENDENT AUDITORS REPORT

School Committee  
Masconomet Regional School District  
20 Endicott Road  
Boxford, Massachusetts 01921

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Masconomet Regional School District, Massachusetts as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

### **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 and the aggregate remaining fund information of the Masconomet Regional School District, as of June 30, 2017 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule of non major governmental funds, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of non major governmental funds is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of non major governmental funds is fairly stated in all material respects in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reported dated November 3, 2017, on our consideration of the Masconomet Regional School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Masconomet Regional School District's internal control over financial reporting and compliance.

*Giusti, Hingston and Company*

Giusti, Hingston and Company  
Certified Public Accountants  
Georgetown, Massachusetts  
November 3, 2017

**Masconomet Regional School District  
Management's Discussion and Analysis  
Required Supplementary Information  
June 30, 2017**

As management of the Masconomet Regional School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the Masconomet Regional School District for the fiscal year ended June 30, 2017.

**Financial Highlights**

- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,286,844 (Page 12), \$717,875 of this fund balance amount relates to the Stabilization Fund which is now required to be included with the general fund for financial statement purposes in accordance with the new GASB 54 requirements. Please see the Notes to the Financial Statements for a description of the GASB 54 requirements on Pages 22 and 23.
- The current fiscal year activity relating to revenues and expenditures resulted in a decrease in Net Position in the amount of \$3,381,840 (Page 11). \$3,430,000 of the decrease relates to the current year accrual of the Other Post Employment Benefits that must be recorded in accordance with the GASB 45 requirements. In addition, the decrease also includes \$1,250,379 (Page 27) of depreciation expense (relating to the Building Project and other fixed assets) that was recorded in the current year in accordance with the GASB 34 requirements.
- The Masconomet Regional School District's total debt decreased by 16.1% during the current year. The decrease was the result of the retirement of \$1,845,000 (Page 8) of general obligation bonds.

**Overview of the Financial Statements**

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Masconomet Regional School District's finances, in a manner similar to private-sector business.

The *Statement of Net Position* presents information on all of the Masconomet Regional School District's assets and liabilities, with the differences between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Masconomet Regional School District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise of the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements report the District's governmental activities (there are no business-type activities). The District's activities are classified as follows:

- **Governmental Activities** – Activities reported here are for educational purposes. Member assessment, charges for services, federal, state and other miscellaneous revenues finance these activities.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Masconomet Regional School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance

with finance related legal requirements. All of the funds of the Masconomet Regional School District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The District maintains fiduciary funds to account for activities related to its Other Post Employment Benefits (OPEB) trust fund. The OPEB Trust Fund is used to accumulate resources to provide funding for future OPEB liabilities.

## **Notes to the Financial Statements**

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

## **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Masconomet Regional School Districts' progress in funding its obligation to provide pension and OPEB benefits to its employees. The *required supplementary information* also includes budget versus actual information.

## **Reconciliation of Government-wide Financial Statements to Fund Financial Statements**

The governmental activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same accounting basis and measurement focus. In accordance with the GASB 34 requirements, capital assets and long-term liabilities are not included on the balance sheet of the governmental funds, but are included on the Statement of Net Position. Capital assets are recorded as expenditures when they are purchased in the governmental funds and depreciated over the useful life in the government-wide financial statements. We have included schedules that provide a crosswalk from the government-wide financial statements to the governmental funds of the fund financial statements:

- Reconciliation of the Governmental funds balance sheet – total fund balances to the Statement of Net Position.
- Reconciliation of the statement of revenues and expenditures and changes in fund balance of governmental funds to the statement of activities.

## Net Position

Net position may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed net position.

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Current Assets	\$ 6,085,437	\$ 6,197,409
Noncurrent Assets	5,828,152	6,830,821
Capital Assets	28,767,309	29,950,653
Total Assets	<u>40,680,898</u>	<u>42,978,883</u>
Deferred Outflows of Resources	<u>616,667</u>	<u>404,065</u>
Current Liabilities	2,306,695	2,954,398
Long Term Liabilities	50,556,590	49,012,949
Total Liabilities	<u>52,863,285</u>	<u>51,967,347</u>
Deferred Inflows of Resources	<u>388,575</u>	<u>62,361</u>
Net Position:		
Net Investment in Capital Assets	25,989,099	26,281,842
Restricted	2,439,855	2,211,270
Unrestricted (Deficit) (See Note Below)	<u>(40,383,249)</u>	<u>(37,139,872)</u>
Total Net Position	<u>\$ (11,954,295)</u>	<u>\$ (8,646,760)</u>

The reason the unrestricted Net Position reflects a deficit is that the GASB 45 OPEB (Other Post Employment Benefits) liability of \$36,050,000 (See Page 10) and the Net Pension Liability of \$6,719,969 (GASB 68) (See Page 10) are required to be recorded in the Statement of Net Position.

## Changes in Net Position

The following condensed financial information was derived from the government-wide Statement of Activities. It reflects how the District's net position has changed during the fiscal year.

	<b><u>Governmental Activities</u></b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>Revenues</b>		
<b>Program Revenues:</b>		
Charges for Services	\$ 2,767,270	\$ 2,555,472
Operating Grants and MTRB Contributions	7,448,803	5,783,944
<b>General Revenues:</b>		
Assessments to Member Towns - Operating	25,390,626	24,548,293
Assessments to Member Towns - Capital/Debt	1,081,727	1,088,247
Intergovernmental - Unrestricted	5,045,616	4,925,754
Unrestricted Investment Earnings	19,715	9,145
Other Revenue	32,903	13,430
Transfers In (Out)	-	(72,195)
Total Revenues	<u>41,786,660</u>	<u>38,852,090</u>
<b>Expenses</b>		
Instruction:		
Middle School	6,865,945	6,516,633
High School	13,634,333	13,126,464
Special Education	4,896,360	5,151,419
Other	782,637	693,830
Support Services:		
Administration	408,054	388,964
Business	7,799,060	7,059,461
Buildings and Grounds	3,592,541	3,167,172
Food Services	831,980	790,159
MTRS Pension Payments	5,521,020	3,928,375
Student Activity Funds	315,256	325,692
Debt Service	521,314	597,274
Total Expenses	<u>45,168,500</u>	<u>41,745,443</u>
Increase (Decrease) in Net Position	<u>\$ (3,381,840)</u>	<u>\$ (2,893,353)</u>

## Governmental Activities

In fiscal year 2017 and 2016 member assessments accounted for approximately 63% and 66% (respectively) of the total revenues.

## Financial Analysis of the District's Funds

### Governmental Funds

The focus of the Masconomet Regional School Districts' governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Masconomet Regional School Districts' financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Masconomet Regional School District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Masconomet Regional School Districts' School Committee.

### General Fund

Based upon the balance sheet as of the close of each fiscal year, the Commonwealth of Massachusetts Department of Revenue (DOR) determines the amount of fund balance (general fund) available for appropriation. In general, this amount (commonly known as "Excess and Deficiency" or "E&D") is generated when actual revenues on a cash basis exceed budgeted amounts and expenditures and encumbrances (unpaid commitments) are less than appropriations, or both.

The following table reflects the trend in all the components of fund balance and details the Excess and Deficiency.

#### Changes in Fund Balance General Fund

<u>Fiscal Year</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total Fund Balance</u>	<u>Excess and Deficiency</u>
2011	\$ -	\$ 1,720,052	\$ 1,720,052	\$ 1,086,801
2012	-	1,735,010	1,735,010	1,206,868
2013	-	1,783,409	1,783,409	1,311,833
2014	-	1,494,784	1,494,784	1,255,668
2015	-	1,748,156	1,748,156	1,531,993
2016	78,467	1,904,454	1,982,921	1,320,152
2017	30,000	2,286,844	2,316,844 *	1,568,969 Estimate

\* The fiscal year ended June 30, 2017 fund balance amount includes \$717,875, which relates to the Stabilization Fund, which is required to be included with the general fund for financial statement purposes in accordance with the GASB 54 requirements. The change in the total fund balance from fiscal year 2016 to 2017, is also shown on Page 13 of the fund financial statements. Please see the Notes to the Financial Statements for a description of the GASB 54 requirements.

## Capital Asset and Debt Administration

**Capital assets.** The Masconomet Regional School District's investment in capital assets for its governmental activities as of June 30, 2017, amounts to \$28,767,309 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, vehicles and furniture, fixtures and equipment. The capital assets as of June 30, 2016 and 2017 are as follows:

### Capital Assets at June 30 (Net of Depreciation)

	Governmental Activities	
	<u>2017</u>	<u>2016</u>
Land	\$ 86,950	\$ 86,950
Total Capital Assets Not Being Depreciated	<u>86,950</u>	<u>86,950</u>
Buildings and Improvements	28,477,971	29,655,380
Furniture, Fixtures and Equipment	186,999	187,331
Vehicles	15,389	20,992
Total Capital Assets Being Depreciated	<u>28,680,359</u>	<u>29,863,703</u>
Total	<u>\$ 28,767,309</u>	<u>\$ 29,950,653</u>

## Debt

The District had \$9,635,000 in bonds outstanding on June 30, 2017. This represents a \$1,845,000 decrease or 16.1% reduction from the previous year.

### Outstanding Debt at June 30

Governmental Activities	<u>2017</u>	<u>2016</u>
General Obligation Bonds Payable	<u>\$ 9,635,000</u>	<u>\$ 11,480,000</u>

## Fiscal Year 2017 Budgetary Items

The FY17 budget passed in all three towns prior to the start of the new fiscal year. A Proposition 2 ½ Override vote to fund the FY17 budget in Middleton passed at the Town Election. After the fiscal year began, the state approved an FY17 budget that provided more state aid for education than was anticipated when the local budgets were adopted in the spring. The increase in state aid was \$69,195. Although Chapter 70 receipts typically mirror the information provided on the Cherry Sheet, transportation reimbursement does not. The final budget approved by the School Committee used the revenue estimate from the previous year for transportation. The transportation receipts in FY17 were more than the amount estimated by \$212,785. There was also a favorable balance of \$24,905 in miscellaneous receipts due to P-card rewards and miscellaneous rebates. There were also fewer receipts collected from federal reimbursement programs in FY17 because of regulatory changes in the amount of \$19,025. There were several other minor variations in revenue as well. In the end, the year closed with a positive revenue variance of \$307,176.

As is true in any year, there were also areas where unfavorable variances occurred in expenditure accounts. Medical leaves and related substitute costs resulted in higher salary expenses at the Middle School. In addition, a paraprofessional was added to support a student returning from an out of district placement. These changes resulted in a \$69,632 cost overrun. Another area where an unfavorable variance occurred was in retiree and employee benefits. There were two primary reasons for this variance; dental insurance was underfunded by \$109,000 and additional employees enrolled in our health insurance plan. Fortunately,

the unfavorable variations were mitigated by the salary breakage associated with veteran employees who took leaves of absence who were replaced by long-term subs at a much lower salary, younger teachers electing to move on to the new schedule B, and unfilled sections due to declining enrollment. All in all, total expenditures fell within the total FY17 appropriation leaving a positive variance of \$324,725 remaining at the close of the year.

There were a number of fund transfers and transactions that occurred in FY17 including three (3) appropriations from the Excess and Deficiency Fund. These transactions totaled \$352,084. They were as follows: 1) \$350,000 to the stabilization fund, 2) \$2,867 for a video editing tool (WeVideo), and 3) \$783 was transferred back to E&D at the end of the fiscal year when the Technology Pilot project fund was closed out. Transfers into the general fund from special revenue funds included \$566,000 from the athletic and co-curricular revolving fund, \$20,278 from the Non-Resident Tuition – International revolving fund, \$59,142 from the Use of Facilities revolving fund, and \$59,000 from the Food Service revolving fund. These transfers represent contributions toward expenses that are related to these programs that are funded in the general fund operating budget.

The transfer of \$350,000 to Stabilization fund was made by the School Committee in recognition of the District's aging of our facilities. These funds were transferred to provide monetary resources for continued repair and maintenance. There were a number of transfers out of Stabilization in FY17 to fund repairs to the facility. These transactions totaled \$306,000. They were approved as follows: 1) \$150,000 to co-fund with the towns, the safety and security project, 2) \$25,000 to fund a failed air conditioning compressor at the Middle School, 3) \$25,000 to fund the replacement of exterior entryway doors, \$80,000 to fund a major repair to the waste water treatment plant, and \$26,000 to fund the renovation of two instructional spaces (art and student services). The Middle School air conditioning repair was completed and the balance of \$7,398 was transferred back to stabilization fund at the close of the fiscal year.

The net impact of all transactions resulted in an increase in the general fund, fund balance which represents both the stabilization fund and the general operating fund balance.

The District is mindful of the impact that the cost of education has on the three communities and works diligently to provide timely information regarding district needs, priorities, and financial fitness. In that regard, we continue to closely monitor the special education out-of-district placement accounts, utilities, facility costs, enrollments, and staffing levels. To this end, a comprehensive facility assessment was conducted by Habeeb and Associates Architects, Inc. at a cost of \$62,500. This project was funded through the Use of Facilities Revolving Fund. The District will use this report to guide in the development of a long term capital plan that will be fiscally responsible by managing costs to align with existing bond retirements. In addition, as an interim funding option, the District anticipates capital project warrant articles for all three communities and will pursue potential alternate funding resources such as grants. The District also performed an extensive analysis of student enrollment and staffing in FY17 that informed staffing requests in FY18.

### **Request for Information**

This financial report is designed to provide a general overview of the Masconomet Regional School Districts' finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Assistant Superintendent for Finance and Operations  
Masconomet Regional School District  
20 Endicott Road  
Boxford, Massachusetts 01921

Masconomet Regional School District  
Statement of Net Position  
June 30, 2017

	Government - Wide <u>Activities</u>
<b>Assets</b>	
Current:	
Cash/Investments	\$ 4,784,153
Accounts Receivable:	
Other	120
Intergovernmental	1,301,164
Noncurrent:	
Accounts Receivable:	
Intergovernmental	5,828,152
Capital Assets:	
Assets Not Being Depreciated (Land)	86,950
Assets Being Depreciated, Net	28,680,359
Total Assets	40,680,898
 <b>Deferred Outflows of Resources</b>	
Pension	579,167
Deferred Debit on Debt Refunding Issue	37,500
Total Deferred Outflows of Resources	616,667
 <b>Liabilities</b>	
Current:	
Warrants Payable	47,362
Withholdings Payable	161,469
Accrued Interest Payable	114,106
Bonds Payable	1,920,000
Other	16
Leasing Payable	63,742
Noncurrent:	
Compensated Absences Payable	71,621
Bonds Payable	7,715,000
Net Pension Liability	6,719,969
Other Post Employment Benefits Payable	36,050,000
Total Liabilities	52,863,285
 <b>Deferred Inflows of Resources</b>	
Pension	388,575
 <b>Net Position</b>	
Net Investment in Capital Assets	25,989,099
Restricted for:	
Capital Projects	286,477
Other Purposes	2,153,378
Unrestricted (Deficit) (See Footnote II A-Page 24)	(40,383,249)
Total Net Position	\$ (11,954,295)

Masconomet Regional School District  
Statement of Activities  
Fiscal Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
<i>Governmental Activities:</i>					
Instruction:					
Middle School	\$ 6,865,945	\$ 979	\$ 34,201	\$ -	\$ (6,830,765)
High School	13,634,333	839,633	-	-	(12,794,700)
Special Education	4,896,360	27,735	1,412,551	-	(3,456,074)
Other	782,637	-	26,453	-	(756,184)
Support Services:					
Administration	408,054	-	-	-	(408,054)
Business	7,799,060	859,211	28,042	-	(6,911,807)
Buildings and Grounds	3,592,541	-	-	-	(3,592,541)
Food Services	831,980	746,550	90,497	-	5,067
MTRS Pension Payments	5,521,020	-	5,521,020	-	-
Student Activity Funds	315,256	293,162	-	-	(22,094)
Debt Service	521,314	-	336,039	-	(185,275)
Total Governmental Activities	<u>\$ 45,168,500</u>	<u>\$ 2,767,270</u>	<u>\$ 7,448,803</u>	<u>\$ -</u>	<u>(34,952,427)</u>
<i>General Revenues:</i>					
					25,390,626
					1,081,727
					5,045,616
					19,715
					32,903
Total General Revenues					<u>31,570,587</u>
					<u>(3,381,840)</u>
Change in Net Position					
Net Position:					
					<u>(8,646,760)</u>
					<u>74,305</u>
					<u>(8,572,455)</u>
					<u>\$ (11,954,295)</u>

Masconomet Regional School District  
 Governmental Funds  
 Balance Sheet  
 June 30, 2017

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Cash/Investments	\$ 2,478,209	\$ 2,305,944	\$ 4,784,153
<b>Accounts Receivable:</b>			
Other	120	-	120
Intergovernmental	6,830,820	298,496	7,129,316
<b>Total Assets</b>	<b>\$ 9,309,149</b>	<b>\$ 2,604,440</b>	<b>\$ 11,913,589</b>
<b>Liabilities:</b>			
Warrants Payable	\$ -	\$ 47,362	\$ 47,362
Withholdings Payable	161,469	-	161,469
Other Liabilities	16	-	16
<b>Total Liabilities</b>	<b>161,485</b>	<b>47,362</b>	<b>208,847</b>
<b>Deferred Inflows of Resources:</b>			
Unavailable Revenue	6,830,820	25,970	6,856,790
<b>Total Deferred Inflows of Resources</b>	<b>6,830,820</b>	<b>25,970</b>	<b>6,856,790</b>
<b>Fund Equity:</b>			
<b>Fund Balances:</b>			
Restricted (See Schedule on Pages 60 and 61)	-	2,439,855	2,439,855
Committed (See Schedule on Pages 60 and 61)	-	91,253	91,253
Assigned	30,000	-	30,000
Unassigned	2,286,844	-	2,286,844
<b>Total Fund Balances</b>	<b>2,316,844</b>	<b>2,531,108</b>	<b>4,847,952</b>
<b>Total Liabilities, Deferred Inflows of     Resources and Fund Balances</b>	<b>\$ 9,309,149</b>	<b>\$ 2,604,440</b>	<b>\$ 11,913,589</b>

Masconomet Regional School District  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Fiscal Year Ended June 30, 2017

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Assessments to Member Towns - Operating	\$ 25,390,626	\$ -	\$ 25,390,626
Assessments to Member Towns - Capital and Debt	1,081,727	-	1,081,727
Intergovernmental			
State Aid - Education	5,034,459	-	5,034,459
State Aid - Transportation	620,765	-	620,765
State Aid - School Construction	1,291,498	-	1,291,498
Other State and Federal Grants	33,132	1,532,049	1,565,181
MTRS Pension Payments	5,521,020	-	5,521,020
Charges for Services	43,948	2,069,051	2,112,999
Departmental	-	10,471	10,471
Contributions and Donations	-	59,695	59,695
Investment Income	19,714	-	19,714
Miscellaneous	32,904	-	32,904
Total Revenues	<u>39,069,793</u>	<u>3,671,266</u>	<u>42,741,059</u>
<b>Expenditures:</b>			
Instruction:			
Middle School	5,988,160	1,325	5,989,485
High School	11,823,576	80,984	11,904,560
Special Education	3,253,818	1,176,551	4,430,369
Other	624,822	66,590	691,412
Support Services:			
Administration	328,102	27,124	355,226
Business	7,468,323	265,731	7,734,054
Buildings and Grounds	1,835,730	286,444	2,122,174
Food Services	-	831,970	831,970
MTRS Pension Payments	5,521,020	-	5,521,020
Student Activity Funds	-	315,256	315,256
Debt Service	2,373,225	-	2,373,225
Total Expenditures	<u>39,216,776</u>	<u>3,051,975</u>	<u>42,268,751</u>
Excess of Revenues Over (Under) Expenditures	<u>(146,983)</u>	<u>619,291</u>	<u>472,308</u>
Other Financing Sources (Uses):			
Transfers In	705,203	298,602	1,003,805
Transfers (Out)	(298,602)	(705,203)	(1,003,805)
Total Other Financing Sources (Uses)	<u>406,601</u>	<u>(406,601)</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>259,618</u>	<u>212,690</u>	<u>472,308</u>
Fund Balance, Beginning	<u>1,982,921</u>	<u>2,318,418</u>	<u>4,301,339</u>
Prior Period Adjustment (See Page 44)	<u>74,305</u>	<u>-</u>	<u>74,305</u>
Fund Balance, Beginning as Restated	<u>2,057,226</u>	<u>2,318,418</u>	<u>4,375,644</u>
Fund Balance, Ending	<u>\$ 2,316,844</u>	<u>\$ 2,531,108</u>	<u>\$ 4,847,952</u>

Masconomet Regional School District  
 Reconciliation of the Governmental Funds Balance Sheet  
 Total Fund Balances to the Statement of Net Position  
 June 30, 2017

Total Governmental Fund Balances	\$ 4,847,952
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	28,767,309
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	6,856,790
In the Statement of Activities, the debt principal issued in excess of the refunded debt is deferred and expensed as interest over the life of the new bond. In the fund financial statements, the excess is expensed as a payment to the escrow agent.	37,500
In the Statement of Activities, interest is accrued on outstanding long term debt. In the fund financial statements, interest is not reported until due.	(114,106)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Compensated Absences Payable	(71,621)
Bonds Payable	(9,635,000)
Leasing Payable	(63,742)
Other Post Employment Benefits Payable	(36,050,000)
Net Pension Liabilities	(6,719,969)
Pension related deferred outflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds:	579,167
Pension related deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds:	(388,575)
Net Position of Governmental Activities	\$ (11,954,295)

Masconomet Regional School District  
 Reconciliation of the Statement of Revenues, Expenditures,  
 and Changes in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 Fiscal Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ 472,308
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 and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(1,183,344)
Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. This amount represents the net change in Unearned Revenue.	(954,399)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on Net Position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,892,680
This item represents the current year OPEB cost. Since it is a long term liability, it is not reported in the governmental funds.	(3,430,000)
This item represents the current year Pension cost. Since it is a long term liability, it is not reported in the governmental funds.	(203,408)
Some expenses reported in the Statement of Activities, such as accrued interest and compensated absences payable, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This represents the net change in those expenses.	<u>24,323</u>
Change in Net Position of Governmental Activities	<u><u>\$ (3,381,840)</u></u>

Masconomet Regional School District  
Statement of Fiduciary Net Position  
Fiduciary Funds - OPEB Trust  
June 30, 2017

	<u>OPEB Trust</u>
<b>Assets</b>	
Cash	\$ 406,298
Total Assets	406,298
<b>Liabilities</b>	
Current:	
Other Liabilities	-
Total Liabilities	-
<b>Net Position</b>	
Other Post Employment Benefits Trust	406,298
Total Net Position	\$ 406,298

Masconomet Regional School District  
Statement of Changes in Fiduciary Net Position  
Fiduciary Funds - OPEB Trust  
Fiscal Year Ended June 30, 2017

	<u>OPEB Trust</u>
Additions:	
Interest, Dividends, and Contributions	\$ 2,840
Contributions - Employer	<u>1,160,000</u>
Total Additions	<u>1,162,840</u>
Deductions:	
Other Post Employment Benefits	<u>1,160,000</u>
Change in Net Position	<u>2,840</u>
Net Position:	
Beginning of the Year	<u>403,458</u>
End of the Year	<u><u>\$ 406,298</u></u>

Masconomet Regional School District  
Notes to the Financial Statements  
June 30, 2017

**I Summary of Significant Accounting Policies**

The accounting policies of the Masconomet Regional School District, as reflected in the accompanying financial statements for the year ended June 30, 2017, conform to accounting principles generally accepted in the United States of America for local government units, except as indicated hereafter.

The more significant accounting policies of the District are summarized below.

**A. Reporting Entity**

The financial statements of the Masconomet Regional School District include the operations of all organizations for which the School Committee exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Based on the aforementioned oversight criteria, the Regional School District was the only entity determined necessary for inclusion in the accompanying financial statements.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Member assessments and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

*Major Fund Criteria*

Major funds must be reported if the following criteria are met:

- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10% of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), and

- If the total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of member assessments amounts due under grants, charges for services and investment income. All other revenues are recognized when received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, accumulated sick pay, and other employee amounts which are not to be liquidated from expendable and available resources; and (2) debt service expenditures which are recognized when due.

Agency fund assets and liabilities are accounted for on the accrual basis of accounting.

The District reports the following major governmental funds:

**General Fund** - This is the District's general operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds column on the governmental funds financial statements. The following types of funds are included in the nonmajor category:

The special revenue fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds. The permanent fund is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements (if applicable), are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method,

revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The other postemployment benefit trust fund is used to accumulate resources for future other postemployment benefits (OPEB) liabilities.

The private-purpose trust funds (if applicable), used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion to be spent.

The agency fund is used to account for assets held in a purely custodial capacity.

D. Assets, Deferred Outflows/Inflows of Resources, Liabilities and Fund Balances

i. Deposits and Investments

The District's cash and cash equivalents are considered to be demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

State and local statutes place certain limitations on the nature of deposits and investments available to the District. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain prescribed levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. governments or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Depository Trust ("MMDT").

ii. Capital Assets

Capital assets, which include land, buildings and improvements, vehicles and furniture fixtures and equipment are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The cost of normal maintenance and repairs (which do not add to the value of the asset or materially extend assets lives) is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land, buildings and improvements, vehicles and furniture fixtures and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	40
Furniture, Fixtures and Equipment	5-15
Vehicles	10

iii. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The District's governmental fund financial statements (balance sheet) reflect deferred inflows of resources for revenues that are not considered "available". The government wide financial statements (statement of net position) reflect deferred outflows of resources related to a debt refunding issue and deferred inflows and outflows of resources related to pensions.

iv. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows.

Net position reported as "net investment in capital assets" includes capital assets, net of accumulated depreciation less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be debt used to acquire capital assets.

Net position is reported as restricted when there is an externally imposed restriction on its use or it is limited by enabling legislation.

v. Fund Balances

Fund Balance Classification Policies and Procedures

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement (effective for fiscal year 2013) establishes accounting and financial reporting standards for all governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications.

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to the constraints on the specific purposes for which the amounts in those funds can be spent.

GASB 54 requires the fund balance amounts to be reported within one of the fund balance categories list below.

*1. Nonspendable*, includes amounts that cannot be spent because they are (a) not in spendable form (such as fund balance associated with inventories) or are (b) legally or contractually required to stay intact (i.e. corpus of a permanent trust fund). This does not apply to the Masconomet Regional School District as of June 30, 2017,

*2. Restricted*, constraints are placed on the use of resources that can be spent only for the specific purposes that are either (a) imposed by creditors, grantors or contributors, or (b) imposed by law through constitution provisions or through enabling legislation, (for example, gifts, donations and most revolving funds. Please see Pages 60 and 61),

*3. Committed*, includes amounts that can be used only for the specific purposes determined by a formal action of the School Committee (the district’s highest level of decision-making authority – please see Pages 60 and 61),

*4. Assigned*, intended (by the School Committee, Superintendent or Assistant Superintendent of Finance and Operations) to be used by the government for specific purposes, but do not meet the criteria to be classified as restricted or committed, and

*5. Unassigned*, the residual classification for the government’s general fund and includes all spendable amounts not contained in the restricted, committed or assigned categories.

The School Committee is the highest level of decision making authority in the District. Committed fund balance cannot be used for any other purposes without formal action by the School Committee.

The District has not formally adopted a policy for its use of unrestricted fund balance. Therefore, in accordance with GASB 54, it considered that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Details of Fund Balance Classifications

The following schedule shows the detail of the fund balance classifications displayed in the aggregate on the District’s balance sheet.

<u>Fund</u>	<u>Account</u>	<u>General Fund</u>	<u>Non Major Funds</u>
<b>Fund Balances:</b>			
<b>Restricted for:</b>			
202	Book Store	\$ -	\$ 12,254
203	College Prep	-	10,597
205	Community School Program	-	12,198
217	Circuit Breaker	-	930,466
218	Athletic & Co-curricular	-	112,963
219	Non Resident Tuition - SPED	-	174,688

<u>Fund</u>	<u>Account</u>	<u>General Fund</u>	<u>Non Major Funds</u>
<b>Fund Balances:</b>			
<b>Restricted for:</b>			
220	School Lunch	-	298,436
221	Use of School Property	-	14,891
222	Non Resident Tuition - International	-	74,192
225	Summer School	-	53,234
226	SPED Summer Program	-	14,165
258	TTEF/MEF Gift Fund	-	5,471
262	Cultural Council HS	-	85
263	Fidelity Gift Fund	-	750
265	Joe Carroll Gift Fund	-	5,866
266	Gifts & Donations	-	31,092
267	Music Dept Gift Fund	-	4,352
268	Essential School Health Service Grant	-	26,001
281	Sped access - prog imp (274)	-	2,905
283	Title I Carryover (Fund 305)	-	(5,908)
301	Capital Project - Irrigation System	-	18,946
302	Capital Project - Waste Water Tmt Plant	-	34,548
309	Capital Project - SIS/LMS	-	8,594
312	Capital Project - Tech Infrastructure	-	32,250
317	Capital Project - Painting	-	14,000
318	Capital Project - Renovations	-	3,139
319	Capital Project - FY18 Safety & Security	-	150,000
320	Capital Project - Exterior Entryway	-	25,000
702	Mitigation Trust Fund	-	137,814
801	Student Activity MS	-	55,680
802	Student Activity HS	-	181,186
	<b>Total Restricted</b>	<b>-</b>	<b>2,439,855</b>
<b>Committed to:</b>			
210	Restitution	-	11,436
211	MS Obligations/Lost Book	-	4,371
212	HS Obligations/Lost Book	-	32,313
245	Accounting Software	-	7,629
246	Professional Negotiator	-	28,179
247	Mandated Compliance	-	7,325
	<b>Total Committed</b>	<b>-</b>	<b>91,253</b>
	<u>Account</u>		
	<b>Assigned to:</b>		
	Reserved for Subsequent Year Expenditures	30,000	-
	<b>Unassigned</b>	<b>2,286,844</b>	<b>-</b>
	<b>Total Fund Balances</b>	<b>\$ 2,316,844</b>	<b>\$ 2,531,108</b>

## Stabilization Fund

The District has established a stabilization fund in accordance with Massachusetts General Laws Chapter 71 Section 16G½. That section of the law stipulates that “A regional school district may, upon a majority vote of all the members of the regional district school committee and, with the approval of a majority of the local appropriating authorities of the member municipalities, establish a stabilization fund and may, in any year, include in its annual budget for deposit in the stabilization fund an amount not exceeding five per cent of the aggregate amount apportioned to the member municipalities for the preceding fiscal year or such larger amount as may be approved by the director of accounts. The aggregate amount in the fund at any time shall not exceed five per cent of the combined equalized valuations of the member municipalities. Any interest shall be added to and become a part of the fund.” The stabilization fund may be appropriated by vote of two-thirds of all of the members of the regional district school committee for any purpose for which regional school districts may borrow money or for such other district purpose as the director of accounts may approve. The District’s stabilization fund has a current balance of \$717,875. The stabilization fund is reported as a component of unassigned fund balance in the general fund on the District’s balance sheet in accordance with the GASB 54 requirements.

## Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Essex Regional Retirement System and the Massachusetts Teacher’s Retirement System and additions to/deductions from the Systems’ fiduciary net position have been determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## **II Stewardship, Compliance and Accountability**

### **A. Net Position – Unrestricted (Deficit)**

The reason the unrestricted net position reflects a deficit is that the GASB 45 OPEB (Other Post-Employment Benefits) liability of \$36,050,000, is required to be recorded in the Statement of Net Position. In addition, the GASB 68 Net Pension Liability of \$6,719,969, is recorded in the financial statements as of June 30, 2017.

## General Budgetary Information

### **i. General Budget Policies**

The District’s original budget is adopted by the School Committee and must be approved by a majority of the member communities. The budget approved by the member communities is a “bottom line” budget. The School Committee may, at its discretion, transfer between appropriation accounts.

### **ii. Budget Basis of Accounting**

The amounts shown in the financial statements as the final budgeted amounts consist of the original adopted budget - adjusted by any transfers or supplemental appropriations authorized by the School Committee.

The following reconciliation summarizes the differences between the budget and GAAP basis principles for the year ended June 30, 2017:

	<u>Revenues</u>
As Reported Budget Basis	\$ 33,541,904
Adjustments:	
Other Revenues Not Reported on Budget Basis (Stabilization Fund)	6,869
MTRS - Pension Payments	<u>5,521,020</u>
As Reported GAAP Statement	<u>\$ 39,069,793</u>
	<u><u>Expenditures</u></u>
As Reported Budget Basis	\$ 33,695,756
Adjustments:	
MTRS - Pension Payments	<u>5,521,020</u>
As Reported GAAP Statement	<u>\$ 39,216,776</u>

### III Detailed Notes on All Funds

#### A. Deposits and Investments

##### Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. As of June 30, 2017, none (\$0) of the District's bank balance of \$1,572,033 was exposed to credit risk.

##### Investments

The Districts investments are included in two accounts; MMDT in the amount of \$2,496,081 and the TD Bank investment sweep account of \$3,093,809. The TD Account(s) are covered by a LOC held by a third party. This LOC covers \$6,000,000 above FDIC insurance coverage.

##### Interest Rate Risk - Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the District does not currently have any investments that are subject to interest rate risk.

##### Custodial Credit Risk - Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a policy for custodial credit risk of investments. As of June 30, 2017, the District was not exposed to custodial credit risk.

## Credit Risk-Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a formal policy relating to credit risk. However, the District does not currently have investments that are subject to this risk.

## Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District does not have a formal policy that limits the amount it may invest in a single issuer. However, the District does not currently have investments that are subject to this risk.

## Fair Value Measurement

Statement #72 of the Government Accounting Standards Board ("GASB") *Fair Value Measurements and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2 -Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Districts' own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The District does not have any investments, as of June 30, 2017, that are subject to reporting using the fair value hierarchy.

B. Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Assets Not Being Depreciated:				
Land	\$ 86,950	\$ -	\$ -	\$ 86,950
Total Capital Assets Not Being Depreciated	<u>86,950</u>	<u>-</u>	<u>-</u>	<u>86,950</u>
Assets Being Depreciated:				
Buildings and Improvements	46,935,862	-	-	46,935,862
Furniture, Fixtures and Equipment	7,229,474	67,035	(157,497)	7,139,012
Vehicles	66,517	-	-	66,517
Total Capital Assets Being Depreciated	<u>54,231,853</u>	<u>67,035</u>	<u>(157,497)</u>	<u>54,141,391</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(17,280,482)	(1,177,409)	-	(18,457,891)
Furniture, Fixtures and Equipment	(7,042,143)	(67,367)	157,497	(6,952,013)
Vehicles	(45,525)	(5,603)	-	(51,128)
Total Accumulated Depreciation	<u>(24,368,150)</u>	<u>(1,250,379)</u>	<u>157,497</u>	<u>(25,461,032)</u>
Total Capital Assets Being Depreciated, Net	<u>29,863,703</u>	<u>(1,183,344)</u>	<u>-</u>	<u>28,680,359</u>
Governmental Activities Capital Assets, Net	<u>\$ 29,950,653</u>	<u>\$ (1,183,344)</u>	<u>\$ -</u>	<u>\$ 28,767,309</u>

Depreciation expense was charged to functions of the District as follows:

Instruction:	
Middle School	\$ 14,740
High School	31,837
Special Education	1,242
Support Services:	
Administration	1,042
Buildings and Grounds	1,201,508
Food Services	10
	<u>\$ 1,250,379</u>

C. Accounts Receivable  
Intergovernmental:

Due from Commonwealth of Massachusetts:

Current:

State Grant	\$ 298,496
School Building Assistance Bureau Grant	<u>1,002,668</u>
Total Current	<u>\$1,301,164</u>

Noncurrent:

School Building Assistance Bureau Grant	<u>5,828,152</u>
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Total Intergovernmental \$7,129,316

The District was approved for a construction assistance program administered by the Massachusetts School Building Authority (MSBA). The MSBA will reimburse the District for a percentage of the principal and interest costs related to the school building project. The District received \$1,291,498 in the current fiscal year – all of which was recognized as revenue in the fund financial statements which utilize the modified accrual basis of accounting. Only the amount related to debt interest was recognized in the entity wide financial statements since the amount related to the construction costs had been accrued in prior fiscal years. The District will receive \$9,216,452 over the life of the related bond. The projected reimbursements for future interest costs are \$918,168. The reimbursements for interest are based on the current debt amortization schedule and are subject to change if the debt is refunded and the interest rate is reduced. An intergovernmental receivable has been recorded in the accompanying financial statements for the portion of the MSBA assistance related to the approved construction costs – since those costs have already been expended. The MSBA intergovernmental receivable has been deferred in the fund financial statements and has been recognized as revenue (in a prior fiscal year) in the entity wide financial statements. The portion of the MSBA assistance related to the future interest cost will be recognized as revenue in the entity wide statements as reimbursements are received and the related expenditures are incurred.

D. Debt

Liabilities

(i) Long Term Debt

General obligation bonds outstanding at June 30, 2017 bear interest at various rates.

Changes in Long Term Debt - the following is a summary of bond transactions for the year ended June 30, 2017.

<u>Project</u>	<u>Issue Date</u>	<u>Rate</u>	<u>Outstanding June 30, 2016</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding June 30, 2017</u>
School Construction	April 1, 2002	4.37% - 5.10%	\$ 4,025,000	\$ -	\$ (595,000)	\$ 3,430,000
School Construction	September 15, 2003	3.50% - 5.00%	4,645,000	-	(580,000)	4,065,000
School Construction - Refunding Issue	July 15, 2009	3.00% - 5.00%	2,810,000	-	(670,000)	2,140,000
Total Outstanding			<u>\$ 11,480,000</u>	<u>\$ -</u>	<u>\$ (1,845,000)</u>	<u>\$ 9,635,000</u>

Summary of Debt Service Requirements to Maturity

	<u>General Long Term Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,920,000	\$ 454,015	\$ 2,374,015
2019	2,000,000	374,065	2,374,065
2020	2,085,000	283,200	2,368,200
2021	1,405,000	182,250	1,587,250
2022	1,470,000	112,000	1,582,000
2023	755,000	37,750	792,750
	<u>\$ 9,635,000</u>	<u>\$ 1,443,280</u>	<u>\$ 11,078,280</u>

D. Debt (Continued)

(ii) Refunding of Long Term Debt

On July 15, 2009, the District issued \$6,535,000 of General Obligation Refunding Bonds with an average interest rate of 3.70% to advance refund \$6,410,000 of outstanding school construction debt with an average interest rate of 5.69%. The net proceeds (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded debt. As a result, the refunded debt is considered to be defeased. The principal and interest costs on the existing debt and the new refunding bonds are detailed below:

<u>Fiscal Year</u>	<u>Existing Debt Principal &amp; Interest</u>	<u>Refunding Bonds Principal &amp; Interest</u>
2018	\$ 860,892	\$ 779,255
2019	865,012	777,175
2020	871,612	777,000
Total	<u>\$ 2,597,516</u>	<u>\$ 2,333,430</u>

Economic Gain from Refunding Issue

The net present value benefit as a result of the refunding issue is \$682,262.

Deferred Debit on Debt Refunding Issue

As noted above, the District issued \$6,535,000 of General Obligation Bonds to advance refund \$6,410,000 of School Construction debt. This resulted in an increased principal balance of \$125,000. In accordance with generally accepted accounting principles, the \$125,000 of added debt principal is required to be shown as a deferred debit, on the Statement of Net Position, and amortized over the remaining life of the debt. The balance to be amortized as of June 30, 2017 is \$37,500.

(iii) Changes in the government's long-term liabilities for the year ended June 30, 2017 are as follows:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance July 1, 2017</u>	<u>Current Portion</u>
Compensated Absences Payable	\$ 63,022	\$ (4,005)	\$ 12,604	\$ 71,621	
Bonds Payable	11,480,000	-	(1,845,000)	9,635,000	\$ 1,920,000
Leasing Payable	123,922	-	(60,180)	63,742	63,742
Net Pension Liability	6,617,673	933,867	(831,571)	6,719,969	-
Other Post Employment Benefits	32,620,000	4,590,000	(1,160,000)	36,050,000	-
Total Governmental Activities	<u>\$ 50,904,617</u>	<u>\$ 5,519,862</u>	<u>\$ (3,884,147)</u>	<u>\$ 52,540,332</u>	<u>\$ 1,983,742</u>

E. Compensated Absences and Interfund Transfers

i. Interfund Transfers

The District’s financial statements reflect transactions between the various funds. These transactions represent operating transfers and do not constitute revenues or expenditures of the funds.

	<u>Transfers In</u>	<u>Transfers (Out)</u>	<u>Total</u>
General	\$ 705,203	\$ (298,602)	\$ 406,601
Non-Major Governmental	298,602	(705,203)	(406,601)
Total	<u>\$ 1,003,805</u>	<u>\$ (1,003,805)</u>	<u>\$ -</u>

ii. Compensated Absences

Vacation and sick leave are granted to employees based on contractual agreements and/or years of service.

The accumulated vacation leave benefit liability is reflected in the accompanying financial statements. Since accumulated sick leave benefits cannot be “bought back” a liability is not required.

iii. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the government-wide financial statements and in the fund financial statements for proprietary fund types (if applicable).

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

iv. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

v. Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

vi. **Other Information**

A. **General Information about the Pension Plan**

**Plan Description**

The District provides pension benefits to eligible employees by contributing to the Essex Regional Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement System. The System is administered by a five member board on behalf of all eligible current employees and retirees (not including teachers who are included in the Massachusetts Teachers' Retirement System). The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The system is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (M.G.L.). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Essex Regional Retirement System issues a stand-alone financial report that is available to the public at [http://www.essexregional.com/Pages/ERRS\\_Reports/Essex%20Regional%20Retirement%20System%20Financial%20Statements%2012-31.pdf](http://www.essexregional.com/Pages/ERRS_Reports/Essex%20Regional%20Retirement%20System%20Financial%20Statements%2012-31.pdf) or by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025.

**Benefits Provided**

The Essex Regional Retirement System provides retirement, disability and death benefits as detailed below:

**Retirement Benefits**

Employees covered by the Contributory Retirement Law are classified into one of four groups depending on job classification. Group 1 comprises most positions in state and local government. It is the general category of public employees. Group 4 comprises mainly police and firefighters. Group 2 is for other specified hazardous occupations. (Officers and inspectors of the State Police are classified as Group 3.)

For employees hired prior to April 2, 2012, the annual amount of the retirement allowance is based on the member's final three-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the table below based on the age of the member at retirement.

<u>Benefit %</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
	<u>Hired on or before April 1 2012</u>		
2.50%	65+	60+	55+
2.40%	64	59	54
2.30%	63	58	53
2.20%	62	57	52
2.10%	61	56	51
2.00%	60	55	50
1.90%	59	N/A	49
1.80%	58	N/A	48
1.70%	57	N/A	47
1.60%	56	N/A	46
1.50%	55	N/A	45

For employees hired on April 2, 2012 or later, the annual amount of the retirement allowance is based on the member's final five-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage according to the tables below based on the age and years of the member at retirement:

<u>Benefit %</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
	<u>Hired on or before April 1 2012</u>		
2.50%	65+	60+	55+
2.40%	64	59	54
2.30%	63	58	53
2.20%	62	57	52
2.10%	61	56	51
2.00%	60	55	50
1.90%	59	N/A	49
1.80%	58	N/A	48
1.70%	57	N/A	47
1.60%	56	N/A	46
1.50%	55	N/A	45

For all employees, the maximum annual amount of the retirement allowance is 80 percent of the member's final average salary. Any member who is a veteran also receives an additional yearly retirement allowance of \$15 per year of creditable service, not exceeding \$300. The veteran allowance is paid in addition to the 80 percent maximum.

Retirement Benefits - Superannuation

Members of Group 1, 2 or 4 hired prior to April 2, 2012 may retire upon the attainment of age 55. For retirement at ages below 55, twenty years of creditable service is required.

Members hired prior to April 2, 2012 who terminate before age 55 with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the System).

Members of Group 1 hired April 2, 2012 or later may retire upon the attainment of age 60. Members of Group 2 or 4 hired April 2, 2012 or later may retire upon the attainment of age 55.

Members hired April 2, 2012 or later who terminate before age 55 (60 for members of Group 1) with ten or more years of creditable service are eligible for a retirement allowance upon the attainment of age 55 (60 for members of Group 1) provided they have not withdrawn their accumulated deductions from the Annuity Savings Fund of the System.

Ordinary Disability Benefits

A member who is unable to perform his or her job due to a non-occupational disability will receive a retirement allowance if he or she has ten or more years of creditable service and has not reached age 55. The annual amount of such allowance shall be determined as if the member retired for superannuation at age 55 (age 60 for Group 1 members hired on or after April 2, 2012), based on the amount of creditable service at the date of disability. For veterans, there is a minimum benefit of 50 percent of the member's most recent year's pay plus an annuity based on his or her own contributions.

Accidental Disability Benefit

For a job-connected disability, the benefit is 72 percent of the member's most recent annual pay plus an annuity based on his or her own contributions, plus additional amounts for surviving children. Benefits are capped at 75 percent of annual rate of regular compensation for employees who become members after January 1, 1988.

### Death Benefits

In general, the beneficiary of an employee who dies in active service will receive a refund of the employee's own contributions. Alternatively, if the employee were eligible to retire on the date of death, a spouse's benefit will be paid equal to the amount the employee would have received under Option C. The surviving spouse of a member who dies with two or more years of credited service has the option of a refund of the employee's contributions or a monthly benefit regardless of eligibility to retire, if they were married for at least one year. There is also a minimum widow's pension of \$500 per month, and there are additional amounts for surviving children.

If an employee's death is job-connected, the spouse will receive 72 percent of the member's most recent annual pay, in addition to a refund of the member's accumulated deductions, plus additional amounts for surviving children. However, in accordance with Section 100 of Chapter 32, the surviving spouse of a police officer, firefighter or corrections officer who is killed in the line of duty will be eligible to receive an annual benefit equal to the maximum salary held by the member at the time of death. Upon the death of a job-connected disability retiree who retired prior to November 7, 1996 and could not elect an Option C benefit, a surviving spouse will receive an allowance of \$9,000 per year if the member dies for a reason unrelated to cause of disability.

### Contributions

Active members of the Essex Regional Retirement System contribute 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The District is required to pay an actuarially determined rate. The contribution requirement of plan members is determined by M.G.L. Chapter 32. The District's contribution requirement is established by and may be amended by the Essex Regional Retirement System with the approval of the Public Employee Retirement Administration Commission.

The District's contractually required contribution rate for the year ended June 30, 2017 was 19.9% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$505,357 for the year ending June 30, 2017.

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

At June 30, 2017, the District reported a liability of \$6,719,969 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. Accordingly, update procedures were utilized to roll forward the liability to the measurement date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2016, the District's proportion was 1.744000%.

For the year ended June 30, 2017, the District recognized pension expense of \$708,765. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 121,016
Change in assumptions	284,799	-
Net differences between projected and actual earnings on pension plan investments	294,368	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	267,559
Contributions subsequent to the measurement date	-	-
	<u>\$ 579,167</u>	<u>\$ 388,575</u>

Contributions made subsequent to the measurement date (deferred outflows of resources) are recognized as a reduction of the net pension liability in the next fiscal year. The District did not have any deferred outflows of resources for contributions made subsequent to the measurement date. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Amount
2017	\$ 64,443
2018	64,443
2019	70,830
2020	(6,445)
2021	(2,679)
Total	<u>\$ 190,592</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2016.

<b>Valuation Date</b>	January 1, 2016														
<b>Actuarial Cost Method</b>	Entry age normal cost method														
<b>Amortization Method</b>	7.41% contribution increases for five years, 6.36% for one year and 4.00% increases thereafter														
<b>Remaining Amortization Period</b>	18 years for the fresh start base														
<b>Asset Valuation Method</b>	Market value adjusted by accounts payable and receivables adjusted to phase in over 5 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value. (same as prior valuation)														
<b>Salary Increases</b>	<table><thead><tr><th>In Year</th><th></th></tr></thead><tbody><tr><td>1</td><td>7.50%</td></tr><tr><td>2</td><td>6.50%</td></tr><tr><td>3</td><td>6.00%</td></tr><tr><td>4</td><td>5.50%</td></tr><tr><td>5</td><td>5.00%</td></tr><tr><td>Thereafter</td><td>3.75%</td></tr></tbody></table>	In Year		1	7.50%	2	6.50%	3	6.00%	4	5.50%	5	5.00%	Thereafter	3.75%
In Year															
1	7.50%														
2	6.50%														
3	6.00%														
4	5.50%														
5	5.00%														
Thereafter	3.75%														
<b>Investment Rate of Return/Discount Rate</b>	7.75.% per year (8.00% in prior valuation)														
<b>Cost of Living Adjustments</b>	3.00% of first \$13,000 (granted annually)														
<b>Mortality Rates Were Based on the Tables Noted Below:</b>															
<b>Pre-Retirement</b>	The RP-2000 mortality table (sex-distinct) projected with scale BB and Generational Mortality. During employment the healthy employee mortality table is used. Post-employment the healthy annuitant table is used. (Prior valuation used the same assumption))														
<b>Disabled Retiree</b>	The RP-2000 mortality table for healthy annuitants (sex-distinct) projected with scale BB and Generational Mortality set-forward by 2 years. Death is assumed to be due to the same cause as the disability 40% of the time. (Prior valuation used the same assumption)														

In performing the actuarial valuation, various assumptions are made regarding mortality, retirement, disability and withdrawal rates as well as salary increases and investment returns. A comparison of the results of the current valuation and the prior valuation is made to determine how closely actual experience relates to expected. The RP-2000 Employee Mortality Table (sex distinct) projected with Scale BB and the RP-2000 Healthy Annuitant

Mortality Table for healthy annuitants (sex distinct) projected with Scale BB set forward 2 years were determined to contain provisions appropriate to reasonably reflect future mortality improvement, based on a review of the mortality experience of the plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
<b>Global Equities:</b>		
Large Cap Equities	13.84%	4.37%
Mid/Small Cap Equities	3.34%	4.61%
International Equities	15.26%	4.69%
Emerging Market Equities	5.73%	6.42%
<b>Core Fixed Income:</b>		
Core Bonds	4.77%	0.97%
20+ Year Treasury STRIPS	1.91%	0.73%
TIPS	4.77%	0.73%
<b>Value-Added Fixed Income:</b>		
High-Yield Bonds	1.43%	2.67%
Bank Loans	2.39%	2.91%
EMD (External)	0.95%	2.67%
EMD (Local Currency)	0.00%	3.40%
Distressed Debt	2.86%	5.88%
Other Credit Opportunities	1.91%	3.73%
<b>Private Equity</b>	13.25%	6.31%
<b>Real Estate</b>	10.43%	3.40%
<b>Timberland</b>	3.82%	2.91%
<b>Cash</b>	0.93%	0.00%
<b>Hedge Funds/Portfolio Completion</b>	12.41%	3.38%
	100.00%	

#### Rate of Return

The annual money-weighted rate of return on pension plan investments for December 31, 2016 (net of investment expenses) was 7.80%. (1.04% for December 31, 2015). The money-weighted rate of return expresses investment performance, net of pension plan investment expense, is adjusted for the changing amounts actually invested, measured monthly.

#### Discount Rate

The discount rate used to measure the total pension liability was 7.75% (8.00% in the previous valuation). The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the Essex Regional Retirement System contributions will be made at rates equal to the actuarially determined

contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected 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 benefit payments to determine the total pension liability.

*Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the Essex Regional Retirement System, calculated using the discount rate of 7.75%, as well as what the Essex Regional Retirement System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease <u>(6.75%)</u>	Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
District's proportionate share of the Net Pension Liability	\$8,236,467	\$6,719,969	\$5,598,023

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued Essex Regional Retirement System financial report. The System issues a stand-alone financial report that can be obtained through the Systems website [http://www.essexregional.com/Pages/ERRS\\_Reports/Essex%20Regional%20Retirement%20System%20Financial%20Statements%2012-31.pdf](http://www.essexregional.com/Pages/ERRS_Reports/Essex%20Regional%20Retirement%20System%20Financial%20Statements%2012-31.pdf)

A. *Massachusetts Teachers Retirement System*

*Special Funding Situation*

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. The MTRS covers certified teachers and certain school administrators. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirements of the MTRS. Therefore, the District is considered to be in a "special funding situation" according to GASB Statement # 68 *Accounting and Financial Reporting for Pensions*. Since the District does not contribute to the MTRS it does not have a pension liability to report.

MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members-two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

For the fiscal year ended June 30, 2017, the District's proportionate share of the collective pension expense was \$5,521,020. The District's proportionate share was based on its percentage share of covered payroll in the MTRS. Accordingly, the accompanying financial statements include the required adjustments, which have increased both Intergovernmental revenues and the Education expenditures by the same amount in the fund financial statements and the education expense and program revenue in the government wide financial statements. The net effect of this adjustment does not change the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2017, or fund balance/net position at June 30, 2017.

The Commonwealth's proportionate share of net pension liability associated with the District is \$54,124,167.

The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report. The Commonwealth's report is available on the internet at: <http://www.mass.gov/comptroller/docs/reports-audits/cafr/2016-cafr.pdf>

### Benefits provided

MTRS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Member contributions for MTRS vary depending on the most recent date of membership.

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984-6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation
1979 to present	An additional 2% of regular compensation over \$30,000

### Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

1. (a) 7.5% investment rate of return (same as the previous valuation), (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase on the first \$13,000 per year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
3. Mortality rates were as follows:
  - Pre-retirement - reflects RP-2014 Employees table projected generationally with Scale BB and a base year 2014 (gender distinct)
  - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year 2014 (gender distinct)
  - Disability – assumed to be in accordance RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year 2014 set forward 4 years

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are

developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2016 are summarized in the following table:

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Global Equity	40.00%	6.90%
Core fixed income	13.00%	1.60%
Private Equity	10.00%	8.70%
Real estate	10.00%	4.60%
Value Added Fixed Income	10.00%	4.80%
Hedge Funds	9.00%	4.00%
Portfolio Completion Strategies	4.00%	3.60%
Timber/Natural Resources	4.00%	5.40%
	<hr/> <hr/> 100%	

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the Commonwealth of Massachusetts financial report. The financial report is available on the internet at: <http://www.mass.gov/mtrs/docs/financial-reports/gasb68report-06302016.pdf>.

B. Other Post Employment Benefits (OPEB) Disclosures

The Governmental Accounting Standards Board (GASB) issued Statement #74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* which became effective for the current reporting period. GASB Statement #74 relates to reporting requirements of the District's OPEB Trust fund. The net other post-employment benefits liability reported in the GASB Statement #74 disclosures differs from the net other post-employment benefits obligation amount reported in the District's statement of net position. The reporting requirements related to the District's statement of net position are currently guided by GASB Statement #45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under GASB Statement #45, the reporting of the District's net other post-employment benefits liability is being "phased in" over a thirty year period. Concurrent with GASB Statement #74, the GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement #75 (which becomes effective for the June 30, 2018 reporting period) eliminates the thirty year phase in of the other post-employment benefits liability. Therefore, the net other post employment liability reported in the District's June 30, 2018 statement of net position will agree with the GASB Statement #74 disclosures related to the District's OPEB Trust.

**Plan Description.**

*Plan Administration:* The District administers all activity related to the other post-employment benefits plan - a single employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all eligible employees of the District.

*Plan Membership:* At June 30, 2017, the plans membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	152
Active Plan Members	<u>283</u>
Total	435

*Benefits Provided:* The District provides retired employees and their spouses and dependents with payments for a portion of their health care and life insurance benefits. Benefits are provided through a third party insurer.

*Contributions.* Retirees and their spouses pay 27.5% of the cost of medical premiums and 30% of the dental premiums. In addition, the retirees and their spouses pay 23% of the premiums for either a \$2,000 or \$10,000 life insurance policy. Benefits paid by the District are on a pay-as-you-go basis. The contribution requirements of plan members and the District are established through collective bargaining and may be amended from time to time.

On June 8, 2011, the school committee voted to establish an “other post employment benefits trust fund” in accordance with Massachusetts General Law Chapter 32B, Section 20. They also established a policy to allocate all Federal Medicare program reimbursements (Medicare Part D) to this fund effective June 1, 2011. In June 2012 the District implemented S29, 30 and 31 of the Health Reform Act. When this occurred, the District was no longer eligible for the Medicare Part D reimbursement. Since that time the School Committee has periodically appropriated Unanticipated Revenues for this purpose.

**Investments**

*Investment Policy:* The plan’s policy in regard to the allocation of invested assets is approved and may be amended by the District. The policy pursues an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the adopted asset allocation policy as of June 30, 2017:

	<u>Target Allocation</u>
Domestic Equity	0.00%
Fixed Income	100.00%
Private Equity	0.00%
Real Estate	0.00%
Cash	<u>0.00%</u>
	<u>100.00%</u>

*Concentrations*

The OPEB plan did not hold investments in any one organization that represent 5 percent or more of the OPEB plan’s fiduciary net position.

*Rate of Return*

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 0.7%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## Net OPEB Liability

The components of the Net OPEB liability of the District at June 30, 2017 were as follows:

Total OPEB Liability	\$70,405,821
Plan Fiduciary Net Position	<u>(406,098)</u>
Net OPEB Liability	<u><u>\$69,999,723</u></u>

Plan fiduciary net position as a percentage of the total OPEB liability	0.58%
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*Actuarial assumptions.* The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00%
Salary Increases	3.00%
Investment Rate of Return	3.13%
Health Cost Trend Rates	8.0% decreased to 5% ultimately
Retirement Age	Rates from age 55 or 20 years
Mortality	RP-2014 mortality table with MP-2014 projection

### *Changes in Assumption:*

The actuarial cost method was changed from projected unit credit method to the entry age normal method. In addition, the investment rate of return was changed from 4.5% to 3.13%.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017, are summarized in the table below:

	<u>Long Term Expected Rate of Return</u>
Domestic Equity	N/A
Fixed Income	1.00%
Private Equity	N/A
Real Estate	N/A
Cash	N/A

*Discount rate:* The discount rate used to measure the total OPEB liability was 3.13% (4.5% in the prior valuation). The projection of cash flows used to determine the discount rate assumed that District contributions will not be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Therefore a blended long-term expected rate of return on OPEB plan investments was applied to determine the total OPEB liability.

*Sensitivity of the net OPEB liability to changes in the discount rate:* The following presents the net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.13 percent) or 1-percentage-point higher (4.13 percent) than the current discount rate:

	1% Decrease <u>2.13%</u>	Discount Rate <u>3.13%</u>	1% Increase <u>4.13%</u>
Net OPEB Liability (asset)	\$ 82,692,857	\$ 69,999,523	\$ 57,306,189

*Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates:* The following presents the net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower (7.0 percent decreasing to 4.0 percent) or 1-percentage-point higher (9.0 percent decreasing to (6.0 percent) than the current healthcare cost trend rates:

	1% Decrease (7.0% decreasing to 4.0%) <u>7.00%</u>	Healthcare Cost Trend (8.0% decreasing to 5.0%) <u>8.00%</u>	1% Increase (9.0% decreasing to 6.0%) <u>9.00%</u>
Net OPEB Liability (asset)	\$ 56,096,415	\$ 69,999,523	\$ 87,064,251

**Annual OPEB Cost and OPEB Obligation.** The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the District, an amount that has been actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost, the amount actually contributed to the plan, and the District’s Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$ 5,040,000
Interest on Net OPEB Obligation	1,470,000
Adjustment to Annual Required Contribution	<u>(1,920,000)</u>
Annual OPEB Cost (Expense)	4,590,000
Contributions Made	(1,160,000)
Increase in Net OPEB Obligation	3,430,000
Net OPEB Obligation (NOO)- Beginning of Year	<u>32,620,000</u>
Net OPEB Obligation (NOO)- End of Year	<u>\$ 36,050,000</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the recent years are as follows:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2009	\$6,794,416	16.4%	\$5,678,130
2010	\$6,794,416	16.7%	\$11,340,675
2011	\$4,860,000	26.1%	\$14,930,675
2012	\$5,200,000	25.4%	\$18,810,675
2013	\$5,120,000	24.2%	\$22,560,675
2014	\$5,199,325	21.0%	\$26,670,000
2015	\$3,990,000	25.3%	\$29,650,000
2016	\$4,160,000	28.6%	\$32,620,000
2017	\$4,590,000	25.3%	\$36,050,000

**Funded Status and Funding Progress.** An actuarial valuation was prepared on July 1, 2016. The Actuarial Accrued Liability (AAL) was \$42,210,000 and the Actuarial Market Value of Plan Assets was \$400,000, leaving an Unfunded Actuarial Accrued Liability (UAAL) of \$41,810,000 as of July 1, 2016.

As a historical note, the District implemented a major plan design change (during fiscal year 2010), to retiree health insurance. These two actions (establishing and funding the OPEB trust, as described on Page 40 under “Contributions”, and the change in plan design) reduced the OPEB liability (during fiscal year 2010) for the District by \$16,179,715.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions.** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used to include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**Allocation of Accrued Other Post Employment Benefit Costs.** Other Post Employment Benefit Costs were accrued and reported in the Statement of Activities. The costs were allocated as follows:

Instruction:	
Middle School	\$877,570
High School	1,732,755
Special Education	476,850
Other	91,225
Support Services:	
Administration	48,084
Business	1,094,489
Buildings and Grounds	269,027
Total	<u>\$4,590,000</u>

C. Subsequent Year Authorization

The School Committee adopted a fiscal year 2018 budget totaling \$34,800,905. The accompanying financial statements do not reflect the adoption of the fiscal year 2018 budget. The budgetary amounts will be financed by the following sources:

Member Assessments	\$ 27,019,579
State and Federal Aid	6,973,406
Local Receipts	73,500
Excess and Deficiency	30,000
Fund Transfers	704,420
Total	<u>\$ 34,800,905</u>

D. Prior Period Adjustment

The prior period adjustment shown in the financial statements, in the amount of \$74,305, relates to a reversal of a prior period audit adjustment.

E. Implementation of New GASB Pronouncements

During fiscal year 2017, the following GASB pronouncements were implemented:

- The GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, which is required to be implemented in fiscal year 2017. The implementation of this pronouncement did not impact the financial statements for the District.
- The GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which is required to be implemented in fiscal year 2017. The implementation of this pronouncement required new disclosures and required supplementary information schedules related to the District's Other Post-Employment Benefits Trust Fund.

- The GASB issued Statement No. 77, Tax Abatement Disclosures, which is required to be implemented in fiscal year 2017. The implementation of this pronouncement did not impact the financial statements for the District.
- The GASB issued Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans which is required to be implemented in fiscal year 2017. The implementation of this pronouncement did not impact the financial statements for the District.
- The GASB issued Statement No 80, Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14 which is required to be implemented in fiscal year 2017. The implementation of this pronouncement did not impact the financial statements for the District.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which is required to be implemented in fiscal years beginning after June 15, 2017.
- The GASB issued Statement No 81 Irrevocable Split-Interest Agreements, which is required to be implemented in fiscal years beginning after December 15, 2016.
- The GASB issued Statement No 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73 which is required to be implemented in fiscal year 2018.
- The GASB issued Statement No. 83, Certain Asset Retirement Obligations which is required to be implemented in fiscal years beginning after June 15, 2018.
- The GASB issued Statement No. 84, Fiduciary Activities which is required to be implemented in fiscal years beginning after December 15, 2018.
- The GASB issued Statement No. 85, Omnibus 2017 which is required to be implemented in fiscal years beginning after June 15, 2017.
- The GASB issued Statement No. 86, Certain Debt Extinguishment Issues which is required to be implemented in fiscal years beginning after June 15, 2017.
- The GASB issued Statement No. 87, Leases which is required to be implemented in fiscal years beginning after December 15, 2019.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements. Management's current assessment is that GASB Statement #75 will have a significant impact on the District's basic financial statements by recognizing the entire actuarially accrued liability and expense, related to the District's Other Post-Employment Benefits.

***Required Supplementary Information***

Masconomet Regional School District  
Required Supplementary Information  
General Fund  
Statement of Revenues and Expenditures - Budget and Actual  
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		Actual Budget Basis <u>Amounts</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Assessments to Member Towns - Operating	\$ 25,390,626	\$ 25,390,626	\$ 25,390,626	\$ -
Assessments to Member Towns - Capital and Debt	1,081,727	1,081,727	1,081,727	-
Intergovernmental				
State Aid - Education	4,965,264	4,965,264	5,034,459	69,195
State Aid - Transportation	407,980	407,980	620,765	212,785
State Aid - School Construction	1,291,498	1,291,498	1,291,498	-
Other State and Federal Aid	41,000	41,000	33,132	(7,868)
Departmental	46,000	46,000	43,948	(2,052)
Investment Income	5,500	5,500	12,845	7,345
Miscellaneous	8,000	8,000	32,904	24,904
Total Revenues	<u>33,237,595</u>	<u>33,237,595</u>	<u>33,541,904</u>	<u>304,309</u>
<u>Expenditures</u>				
Instruction:				
Middle School	5,920,123	5,918,528	5,988,160	(69,632)
High School	12,211,831	12,214,213	11,823,576	390,637
Special Education	3,309,551	3,307,001	3,253,818	53,183
Other	708,484	710,247	624,822	85,425
Support Services:				
Administration	315,930	315,930	328,102	(12,172)
Business	7,338,181	7,341,049	7,468,323	(127,274)
Buildings and Grounds	1,840,289	1,840,289	1,835,730	4,559
Debt Service	2,373,225	2,373,225	2,373,225	-
Total Expenditures	<u>34,017,614</u>	<u>34,020,482</u>	<u>33,695,756</u>	<u>324,726</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(780,019)</u>	<u>(782,887)</u>	<u>(153,852)</u>	<u>629,035</u>
<u>Other Financing Sources (Uses):</u>				
Excess and Deficiency	75,599	428,467	428,467	-
Operating Transfers In	704,420	704,420	704,420	-
Operating Transfers Out	-	(350,000)	(350,000)	-
Total Other Financing Sources (Uses)	<u>780,019</u>	<u>782,887</u>	<u>782,887</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources (Uses) Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 629,035</u>	<u>\$ 629,035</u>

**See Notes to the Required Supplementary Information**

Required Supplementary Information  
Schedule of the Masconomet Regional School District's Proportionate Share of the Net  
Pension Liability  
Essex Regional Retirement System\*\*  
Last Ten Fiscal Years\*

	<u>2017</u>	<u>2016</u>
District's proportionate share of net pension liability (asset) (%)	1.744000%	1.821000%
District's proportionate share of net pension liability (asset) (\$)	6,719,969	6,617,673
District's covered-employee payroll	2,538,981	2,349,100
District's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	264.67%	281.71%
Plan fiduciary net position as a percentage of the pension liability	51.12%	51.01%

\*Historical information prior to implementation of GASB 67/68 is not required..

\*\* The amounts presented for each fiscal year were determined as of December 31.

**See Notes to the Required Supplementary Information**

Required Supplementary Information  
Schedule of the Masconomet Regional School District's Contributions  
Essex Regional Retirement System  
Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 505,357	\$ 500,382	\$ 469,570	\$ 433,821	\$ 382,468	\$ 340,619	\$ 298,631	\$ 291,418	\$ 272,654	\$ 283,647
Contributions in relation to the contractually required contribution	<u>(505,357)</u>	<u>(500,382)</u>	<u>(469,570)</u>	<u>(433,821)</u>	<u>(382,468)</u>	<u>(340,619)</u>	<u>(298,631)</u>	<u>(291,418)</u>	<u>(272,654)</u>	<u>(283,647)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				
District's covered-employee payroll	2,538,981	2,349,100	2,249,066	2,185,432	<i>(Historical information prior to implementation of GASB 67/68 is not required)</i>					
Contributions as a percentage of covered-employee payroll	19.90%	21.30%	20.88%	19.85%						

**See Notes to the Required Supplementary Information**

Required Supplementary Information  
Schedule of Masconomet Regional School's Proportionate Share of the Collective Net Pension Liability  
Massachusetts Teachers' Retirement System  
Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
District's proportionate share of the collective net pension liability (asset) (%)	0.00%	0.00%	0.00%	<i>(Historical information prior to implementation of GASB 67/68 is not required)</i>						
District's proportionate share of the collective net pension liability (asset) (\$)	\$ -	\$ -	\$ -							
State's proportionate share of the collective net pension liability (asset) associated with District (\$)	<u>\$ 54,124,167</u>	<u>\$ 48,433,340</u>	<u>\$ 37,657,633</u>							
Total	<u>\$ 54,124,167</u>	<u>\$ 48,433,340</u>	<u>\$ 37,657,633</u>							
District's covered-employee payroll	15,923,187	15,016,509	14,525,203							
District's proportionate share of the collective net pension liability (asset) as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%							
Plan fiduciary net position as a percentage of the pension liability	52.73%	55.38%	61.64%							
District's expense and revenue recognized for Commonwealth support	<u>\$ 5,521,020</u>	<u>\$ 3,928,375</u>	<u>\$ 2,616,256</u>							

**See Notes to the Required Supplementary Information**

Masconomet Regional School District  
 Required Supplementary Information  
 Schedule of Funding Progress and Employers Contributions - Other Post Employment Benefits  
 Fiscal Year Ended June 30, 2017

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
7/1/2012	\$140,000	\$45,060,000	\$44,920,000	0%	\$15,470,000	290%
7/1/2013	\$250,000	\$45,960,000	\$45,710,000	0%	\$16,230,000	282%
7/1/2014	\$330,000	\$36,930,000	\$36,600,000	0%	\$17,590,000	208%
7/1/2016	\$400,000	\$42,210,000	\$41,810,000	1%	\$19,840,000	211%

**Schedule of Employer's Contributions**

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$6,794,416	16.4%	\$5,678,130
2010	\$6,794,416	16.7%	\$11,340,675
2011	\$4,860,000	26.1%	\$14,930,675
2012	\$5,200,000	25.4%	\$18,810,675
2013	\$5,120,000	24.2%	\$22,560,675
2014	\$5,199,325	21.0%	\$26,670,000
2015	\$3,990,000	25.3%	\$29,650,000
2016	\$4,160,000	28.6%	\$32,620,000
2017	\$4,590,000	25.3%	\$36,050,000

**See Notes to the Required Supplementary Information**

Masconomet Regional School District  
 Required Supplementary Information  
 Valuation Details - Other Post Employment Benefits  
 Fiscal Year Ended June 30, 2017

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Interim Valuation Date	July 1, 2016
Actuarial Funding Method	Projected Unit Credit
Amortization Method	Level Dollar Basis/Open; Over 30 Years
Asset Valuation Method	Market Value

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**Actuarial Assumptions:**

Investment Rate of Return	4.5% Per Annum
Medical/Drug Cost Trend Rate	8.0% first year, decreases by 0.5% per year through year 7 to 5.0%

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Plan Membership:

Current retirees, beneficiaries, and dependents	152
Current active members	<u>283</u>
Total	<u>435</u>

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**See Notes to the Required Supplementary Information**

Masconomet Regional School District  
Required Supplementary Information  
Schedule of Changes In the Net OPEB Liability and Related Ratios  
June 30, 2017  
Last 10 Fiscal Year

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Total OPEB liability</b>										
Service cost	\$ 2,370,000	<i>(Historical information prior to implementation of GASB 74 is not required)</i>								
Interest	1,900,000									
Changes of benefit terms	-									
Difference between expected and actual experience	-									
Changes in assumptions (see below*)	25,085,821									
Benefit payments	(1,160,000)									
<b>Net change in total OPEB liability</b>	<u>28,195,821</u>									
<b>Total OPEB liability - beginning</b>	<u>42,210,000</u>									
<b>Total OPEB liability - ending (a)</b>	<u><u>\$ 70,405,821</u></u>									
<b>Plan Fiduciary net position</b>										
Contributions - employer	\$ 1,160,000									
Net investment income	2,840									
Benefit payments	(1,160,000)									
Administrative expense	-									
<b>Net change in plan fiduciary net position</b>	<u>2,840</u>									
<b>Plan fiduciary net position - beginning</b>	<u>403,258</u>									
<b>Plan fiduciary net position - ending (b)</b>	<u><u>\$ 406,098</u></u>									
<b>District's net OPEB liability - ending (a) - (b)</b>	<u><u>\$ 69,999,723</u></u>									
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	0.58%									
<b>Covered-employee payroll</b>	\$ 19,840,000									
<b>District's net OPEB liability as a percentage of covered - employee payroll</b>	352.82%									
<b>Notes to Schedule:</b>										
<i>Benefit changes</i>	None									
<i>Changes in assumption</i>	* Changed to 3.13% - Discount rate and change in method - GASB 45- PUC (Projected Unit Cost) to GASB 74/75 - EAN (Entry Age Normal)									

**See Notes to the Required Supplementary Information**

Masconomet Regional School District  
 Required Supplementary Information  
 Schedule of Contributions and Assumptions - Other Post Employment Benefits  
 June 30, 2017  
 Last 10 Fiscal Year

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarial determined contribution	\$ 5,040,000	<i>(Historical information prior to implementation of GASB 74 is not required)</i>								
Contributions in relating to the actuarially determined contribution	1,160,000									
Contribution deficiency (excess)	\$ 3,880,000									
Covered-employee payroll	\$ 19,840,000									
Contributions as a percentage of covered-employee payroll	5.85%									

**Notes to Schedule**

Valuation date:

Actuarially determined contribution rates are calculated as of June 30, 2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Asset valuation method	Market Value
Inflation	3.00%
Healthcare cost trend rates	8.0% decreased to 5% ultimately
Salary increases	3.00%
Investment rate of return	3.13%
Retirement age	from age 55 or 20 years
Mortality	RP-2014 mortality table with MP-2014 projection

**See Notes to the Required Supplementary Information**

Required Supplementary Information  
Schedule of Investment Returns - Other Post Employment Benefits  
June 30, 2017  
Last 10 Fiscal Year

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Annual money-weighted rate of return, net of investment expense	0.70%	<i>(Historical information prior to implementation of GASB 74 is not required)</i>								

**See Notes to the Required Supplementary Information**

Masconomet Regional School District  
Notes to the Required Supplementary Information  
June 30, 2017

I. Budgetary Information

i. General Budget Policies

The District’s original budget is adopted by the School Committee and must be approved by a majority of the member communities. The budget approved by the member communities is a “bottom line” budget, The School Committee may, at its discretion, transfer between appropriation accounts.

ii. Budget Basis of Accounting

The amounts shown in the financial statements as the final budgeted amounts consist of the original adopted budget - adjusted by any transfers or supplemental appropriations authorized by the School Committee.

The following reconciliation summarizes the differences between the budget and GAAP basis principles for the year ended June 30, 2017:

	<u>Revenues</u>
As Reported Budget Basis	\$ 33,541,904
Adjustments:	
Other Revenues Not Reported on Budget Basis (Stabilization Fund)	6,869
MTRS - Pension Payments	5,521,020
As Reported GAAP Statement	\$ 39,069,793
	<u>Expenditures</u>
As Reported Budget Basis	\$ 33,695,756
Adjustments:	
MTRS - Pension Payments	5,521,020
As Reported GAAP Statement	\$ 39,216,776

II. Pension Plans

i. Plan Description

The District provides pension benefits to eligible employees by contributing to the Essex Regional Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Essex Regional Retirement System. The System is administered by a five member board on behalf of all eligible current employees and retirees (not including teachers who are included in the Massachusetts Teachers’ Retirement System). The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The District is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Essex Regional Retirement System issues a publicly available financial report in accordance with

guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025.

The District, also, provides benefits to teachers through the Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67. The Commonwealth of Massachusetts is statutorily responsible for 100% of the actuarially determined employer contributions. Therefore, the District has a special funding situation.

ii. Funding Plan

Active members of the Essex Regional Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The District is required to pay an actuarially determined rate. The contribution requirements of plan members are determined by M.G.L. Chapter 32. The District's contribution requirement is established and may be amended by the Essex Regional Retirement System with the approval of the Public Employee Retirement Administration Commission.

iii. Changes in Benefit Terms

Chapter 176 of the Acts of 2011 was incorporated in the valuation. The benefit features (i.e. retirement age, percentages used in calculation of pensions) changed for members hired on or after April 2, 2012.

iv. Change in Assumptions

Mortality:

There were no changes in the mortality tables utilized. The RP-2000 mortality table (sex-distinct) projected with scale BB and Generational Mortality. During employment the healthy employee mortality table is used. Post-employment the healthy annuitant table is used.

Disabled Life Mortality:

There were no changes in the disabled life mortality tables utilized. The RP-2000 mortality table for healthy annuitants (sex-distinct) projected with scale BB and Generational Mortality set-forward by 2 years. Death is assumed to be due to the same cause as the disability 40% of the time.

Discount Rate:

The discount rate was lowered from 8.00% to 7.75%.

Salary Increases

The salary increase assumption is a 7.5% increase in year one, 6.5% in year two, 6.0% in year three, 5.5% in year four, 5.0% in year five and an ultimate rate of 3.75%.

v. Schedule of District's Proportionate Share of the Net Pension Liability - Essex Regional Retirement System

The schedule details the District's percentage of the collective net pension liability, the proportionate amount of the collective net pension liability, the District's covered-employee payroll, the District's proportionate share of the collective net pension liability as a percentage of the District's covered-employee payroll and the plans fiduciary net position as a percentage of the total pension liability. As more information becomes available, this will be a ten year schedule.

vi. Schedule of the District's Contributions

The schedule details the District's contractually required contributions, the contributions made by the District, the deficiency/(excess) of contributions made by the District, the District's covered-employee payroll and the District's contributions as a percentage of covered-employee payroll. The schedule is a ten year schedule.

vii. Schedule of District's Proportionate Share of the Net Pension Liability - Massachusetts Teachers' Retirement System

Since the Commonwealth of Massachusetts is statutorily responsible for 100% of the actuarially determined employer contribution, the District has a special funding situation. Therefore, the District does not recognize a net pension liability. This schedule provides information about the state's proportionate share of the collective net pension liability associated with the District and the plans fiduciary net position as a percentage of the total pension liability. It, also, details the District's revenue and expense recognized from the Commonwealth's support. As more information becomes available, this will be a ten year schedule.

III. Other Postemployment Benefits (OPEB) Disclosures

- i. **Plan Description.** The District provides for retired employees and their spouses and dependents by paying for a portion of their health care and life insurance benefits. Currently there are approximately 283 active employees and 152 retired employees who are eligible to participate in the plan.
- ii. **Contributions.** In general the retirees and their spouses pay 27.5% of the cost of medical premiums and 30% of the dental premiums. In addition, the retirees and their spouses pay 23% of the premiums for either a \$2,000 or \$10,000 life insurance policy. Benefits paid by the District are on a pay-as-you-go basis. The contribution requirements of plan members and the District are established through collective bargaining and may be amended from time to time.
- iii. **Annual OPEB Cost and OPEB Obligation.** The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the District, an amount that has been actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

*Supplementary Information*

Masconomet Regional School District  
Schedule of Nonmajor Governmental Funds  
Fiscal Year Ended June 30, 2017  
(Continued)

<u>Fund</u>	<u>Account</u>	<u>Balance</u> <u>Beginning</u> <u>July 1, 2016</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfers</u> <u>In (Out)</u>	<u>Balance</u> <u>Ending</u> <u>June 30, 2017</u>	<u>GASB 54</u>
	<u>Special Revenue Funds</u>						
	<u>Revolving Funds</u>						
202	Book Store	\$ 10,468	\$ 19,977	\$ 18,191	\$ -	\$ 12,254	Restricted
203	College Prep	8,344	41,829	39,576	-	10,597	Restricted
205	Community School Program	12,198	-	-	-	12,198	Restricted
210	Restitution	33,467	165,681	187,712	-	11,436	Committed
211	MS Obligations/Lost Book	4,717	979	1,325	-	4,371	Committed
212	HS Obligations/Lost Book	25,831	9,492	3,010	-	32,313	Committed
217	Circuit Breaker	754,504	930,466	754,504	-	930,466	Restricted
218	Athletic & Co-curricular	83,163	595,800	-	(566,000)	112,963	Restricted
219	Non Resident Tuition - SPED	112,402	62,286	-	-	174,688	Restricted
220	School Lunch	353,419	835,987	831,970	(59,000)	298,436	Restricted
221	Use of School Property	94,083	72,766	92,816	(59,142)	14,891	Restricted
222	Non Resident Tuition - International	46,870	50,100	2,500	(20,278)	74,192	Restricted
225	Summer School	51,334	16,200	14,300	-	53,234	Restricted
226	SPED Summer Program	9,785	5,760	1,380.00	-	14,165	Restricted
245	Accounting Software	7,629	-	-	-	7,629	Committed
246	Professional Negotiator	28,179	-	-	-	28,179	Committed
247	Mandated Compliance	7,325	-	-	-	7,325	Committed
	Total Revolving Funds	<u>1,643,718</u>	<u>2,807,323</u>	<u>1,947,284</u>	<u>(704,420)</u>	<u>1,799,337</u>	
	<u>Gifts and Donations Funds</u>						
258	TTEF/MEF Gift Fund	124,735	28,042	147,306	-	5,471	Restricted
262	Cultural Council HS	85	-	-	-	85	Restricted
263	Fidelity Gift Fund	750	-	-	-	750	Restricted
265	Joe Carroll Gift Fund	3,273	3,000	407	-	5,866	Restricted
266	Gifts & Donations	31,763	26,453	27,124	-	31,092	Restricted
267	Music Dept Gift Fund	2,152	2,200	-	-	4,352	Restricted
	Total Gifts and Donations Funds	<u>162,758</u>	<u>59,695</u>	<u>174,837</u>	<u>-</u>	<u>47,616</u>	
	<u>Grants</u>						
268	Essential School Health Service Grant	-	29,001	3,000	-	26,001	Restricted
271	Sped access - prog imp (274)	279	-	279	-	-	Restricted
273	Title I (DOE 305)	-	1,781	1,781	-	-	Restricted
276	Title IIA Teacher Qual carry (DOE 140 165)	1,090	3,729	4,819	-	-	Restricted
277	Title IIA Teacher Quality CO (FY15, Yr2) (DOE 140)	800	460	1,260	-	-	Restricted
280	SPED IDEA -(DOE 240)	-	404,912	404,912	-	-	
281	Sped access - prog imp (274)	-	10,800	7,895	-	2,905	Restricted
283	Title I Carryover (Fund 305)	-	41,710	47,618	-	(5,908)	Restricted
286	Title IIA Teacher Quality (DOE 140)	-	18,693	18,693	-	-	Restricted
	Total Grant Funds	<u>2,169</u>	<u>511,086</u>	<u>490,257</u>	<u>-</u>	<u>22,998</u>	

Masconomet Regional School District  
Schedule of Nonmajor Governmental Funds  
Fiscal Year Ended June 30, 2017  
(Concluded)

<u>Fund</u>	<u>Account</u>	Balance Beginning July 1, 2016	<u>Revenues</u>	<u>Expenditures</u>	Transfers In (Out)	Balance Ending June 30, 2017	<u>GASB 54</u>
<u>Student Activity Funds</u>							
801	Student Activity MS	46,223	62,734	53,277	-	55,680	Restricted
802	Student Activity HS	212,737	230,428	261,979	-	181,186	Restricted
	Total Student Activity Funds	<u>258,960</u>	<u>293,162</u>	<u>315,256</u>	<u>-</u>	<u>236,866</u>	
	<i>Total Special Revenue Funds</i>	<u>2,067,605</u>	<u>3,671,266</u>	<u>2,927,634</u>	<u>(704,420)</u>	<u>2,106,817</u>	
<u>Capital Projects Funds</u>							
301	Capital Project - Irrigation System	22,879	-	3,933	-	18,946	Restricted
302	Capital Project - Waste Water Tmt Plant	8,884	-	54,336	80,000	34,548	Restricted
309	Capital Project - SIS/LMS	7,380	-	(1,214)	-	8,594	Restricted
312	Capital Project - Tech Infrastructure	36,530	-	4,280	-	32,250	Restricted
313	Capital Project - Tech Pilot Program	784	-	-	(784)	-	Restricted
317	Capital Project - Painting	14,000	-	-	-	14,000	Restricted
318	Capital Project - Renovations	-	-	22,861	26,000	3,139	Restricted
319	Capital Project - FY18 Safety & Security	-	-	-	150,000	150,000	Restricted
320	Capital Project - Exterior Entryway	-	-	-	25,000	25,000	Restricted
321	Capital Project - HAVC & Generator	-	-	17,602	17,602	-	Restricted
	<i>Total Capital Projects Funds</i>	<u>\$ 90,457</u>	<u>\$ -</u>	<u>\$ 101,798</u>	<u>\$ 297,818</u>	<u>\$ 286,477</u>	
702	Mitigation Trust Fund	<u>\$ 160,356</u>	<u>\$ -</u>	<u>\$ 22,542</u>	<u>\$ -</u>	<u>\$ 137,814</u>	Restricted
	Total Nonmajor Funds	<u>\$2,318,418</u>	<u>\$ 3,671,266</u>	<u>\$ 3,051,974</u>	<u>\$ (406,602)</u>	<u>\$ 2,531,108</u>	
<u>Summary of Fund Balances</u>							
	Restricted	\$2,211,270				\$ 2,439,855	
	Committed	107,148				91,253	
	Total	<u>\$2,318,418</u>				<u>\$ 2,531,108</u>	

701 In addition to the above noted Non-Major Government Funds, that are reflected in the Government Wide financial statements, the District also has an OPEB Trust Fund that has a balance of \$406,298, which is shown on Pages 16 and 17.

250 In addition to the funds noted above, the District has a Stabilization Fund which has a balance of \$717,875, as of June 30, 2017. In accordance with the GASB 54 requirements, the balance of this fund is included with the General Fund in the financial statements.

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

School Committee  
Masconomet Regional School District  
20 Endicott Road  
Boxford, Massachusetts 01921

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Masconomet Regional School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Masconomet Regional School District's basic financial statements, and have issued our report thereon dated November 3, 2017.

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Giusti, Hingston and Company*

Giusti, Hingston and Company  
Certified Public Accountants  
Georgetown, Massachusetts  
November 3, 2017