

MASCONOMET REGIONAL SCHOOL DISTRICT

Financial Statements

For the Year Ended June 30, 2016

(With Accountants' Report Thereon)

Masconomet Regional School District
Table of Contents
For the Year Ended June 30, 2016

	Page
Independent Auditors' Report	1,2
Management's Discussion and Analysis (Required Supplementary Information)	3-10
Basic Financial Statements	
Government-wide Financial Statements	
• Statement of Net Position	11
• Statement of Activities	12
Fund Financial Statements	
• Balance Sheet – Governmental Funds	13
• Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	14
• Reconciliation of the Governmental Funds Balance Sheet - Total Fund Balances to the Statement of Net Position	15
• Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
• Statement of Fiduciary Net Position – Fiduciary Funds	17
• Statement of Changes in Fiduciary Net Position – Fiduciary Funds	18
Notes to the Financial Statements	19-45
Required Supplementary Information	
• Statement of Revenues and Expenditures – Budget and Actual - General Fund	47
• Schedule of the Masconomet Regional School District's Proportionate Share of the Net Pension Liability – Essex Regional Retirement System	48
• Schedule of the Masconomet Regional School District's Contributions - Essex Regional Retirement System	49
• Schedule of the Masconomet Regional School District's Proportionate Share of the Collective Net Pension Liability – Massachusetts Teachers' Retirement System	50
• Schedule of Funding Progress and Employer's Contributions - Other Post Employment Benefits	51
• Valuation Details – Other Post Employment Benefits	52
• Notes to the Required Supplementary Information	53-55

Masconomet Regional School District
Table of Contents
For the Year Ended June 30, 2016

	Page
Supplementary Information	
• Schedule of Non Major Governmental Funds	57,58
Independent Auditors Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	59,60

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, 2016, 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, 2016 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 December 15, 2016, 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
December 15, 2016

**Masconomet Regional School District
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2016**

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, 2016.

Financial Highlights

- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,904,454 (Page 13), \$659,606 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 24 and 25.
- The current fiscal year activity relating to revenues and expenditures resulted in a decrease in Net Position in the amount of \$2,893,353 (Page 12). \$2,970,000 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 \$1,255,344 (Page 28) 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 13.4% during the current year. The decrease was the result of the retirement of \$1,780,000 (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 charitable trust funds and for 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>2016</u>	<u>2015</u>
Current Assets	\$ 6,197,409	\$ 6,089,857
Noncurrent Assets	6,830,821	7,823,623
Capital Assets	29,950,653	31,037,782
Total Assets	<u>42,978,883</u>	<u>44,951,262</u>
Deferred Outflows of Resources	<u>404,065</u>	<u>62,500</u>
Current Liabilities	2,954,398	3,335,987
Long Term Liabilities	49,012,949	47,404,169
Total Liabilities	<u>51,967,347</u>	<u>50,740,156</u>
Deferred Inflows of Resources	<u>62,361</u>	<u>27,013</u>
Net Position:		
Net Investment in Capital Assets	26,281,842	26,474,020
Restricted	2,211,270	1,889,491
Unrestricted (Deficit) (See Note Below)	<u>(37,139,872)</u>	<u>(34,116,918)</u>
Total Net Position	<u>\$ (8,646,760)</u>	<u>\$ (5,753,407)</u>

The reason the unrestricted Net Position reflects a deficit is that the GASB 45 OPEB (Other Post Employment Benefits) liability of \$32,620,000 (See Page 11) and the Net Pension Liability of \$6,617,673 (GASB 68) (See Page 11) 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.

	Governmental Activities	
	<u>2016</u>	<u>2015</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 2,555,472	\$ 1,923,396
Operating Grants and MTRB Contributions	5,783,944	4,729,281
General Revenues:		
Assessments to Member Towns - Operating	24,548,293	22,657,664
Assessments to Member Towns - Capital/Debt	1,088,247	1,080,297
Intergovernmental - Unrestricted	4,925,754	4,888,239
Unrestricted Investment Earnings	9,145	7,823
Other Revenue	13,430	32,348
Transfers In (Out)	(72,195)	-
Total Revenues	<u>38,852,090</u>	<u>35,319,048</u>
Expenses		
Instruction:		
Middle School	6,516,633	6,140,288
High School	13,126,464	12,646,406
Special Education	5,151,419	4,920,068
Other	693,830	555,094
Support Services:		
Administration	388,964	358,751
Business	7,059,461	6,448,602
Buildings and Grounds	3,167,172	3,191,991
Food Services	790,159	761,714
MTRS Pension Payments	3,928,375	2,616,256
Student Activity Funds	325,692	288,179
Debt Service	597,274	667,588
Total Expenses	<u>41,745,443</u>	<u>38,594,937</u>
Increase (Decrease) in Net Position	<u>\$ (2,893,353)</u>	<u>\$ (3,275,889)</u>

Governmental Activities

In fiscal year 2016 and 2015 member assessments accounted for approximately 66% and 67% (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>Unreserved</u>	<u>Total Fund Balance</u>	<u>Excess and Deficiency</u>
2009	\$ 965,204	\$ 965,204	\$ 1,003,437
2010	1,240,954	1,240,954	1,244,902

<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

* The fiscal year ended June 30, 2016 fund balance amount includes \$659,606, 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 2015 to 2016, is also shown on Page 14 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, 2016, amounts to \$29,950,653 (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, 2015 and 2016 are as follows:

Capital Assets at June 30 (Net of Depreciation)

	Governmental Activities	
	<u>2016</u>	<u>2015</u>
Land	\$ 86,950	\$ 86,950
Total Capital Assets Not Being Depreciated	<u>86,950</u>	<u>86,950</u>
Buildings and Improvements	29,655,380	30,832,789
Furniture, Fixtures and Equipment	187,331	91,449
Vehicles	20,992	26,594
Total Capital Assets Being Depreciated	<u>29,863,703</u>	<u>30,950,832</u>
Total	<u>\$ 29,950,653</u>	<u>\$ 31,037,782</u>

Debt

The District had \$11,480,000 in bonds outstanding on June 30, 2016. This represents a \$1,780,000 decrease or 13.4% reduction from the previous year.

Outstanding Debt at June 30

Governmental Activities	<u>2016</u>	<u>2015</u>
General Obligation Bonds Payable	<u>\$ 11,480,000</u>	<u>\$ 13,260,000</u>

Fiscal Year 2016 Budgetary Items

The FY16 budget passed in Boxford and Topsfield prior to the start of the new fiscal year. A Proposition 2 ½ Override vote to partially fund the FY16 budget in Middleton did not pass at Town Election. Since the budget passed in 2 of the 3 communities, Middleton was obligated to pay for the additional \$287,939 specified in the override. After the fiscal year began, the state approved a FY16 budget that provided slightly more state aid for education than was anticipated when the local budgets were adopted in the spring. The increase in state aid was estimated to be \$10,065. 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 FY16 were more than the amount estimated by \$68,477. There was also a favorable balance of \$19,343 in miscellaneous receipts due in part to the sale of the items declared surplus last year and P-card rewards. In the end, the year closed with a positive revenue variance of \$92,592.

As is true in any year, there were also areas where unfavorable variances occurred in expenditure accounts. A student on an IEP returning from Out-of-District placement required hiring of additional staff for support. Fortunately, the costs for these hires were mitigated by the reduction in tuitions paid and replacement of staff at a lower salary. After the budget was approved, the hiring of lower cost staff also helped offset the high salary expenses that were due to medical leaves and related substitutes. Two-year contracts for electricity and gas were negotiated in FY16. While electricity costs remain high, this contract and savings realized from the parking lot light retrofit resulted in a net savings of \$9,934. With a milder winter and less snow than in recent years, heating and snow removal expenses were less than anticipated by \$32,670. Another noteworthy variance in the FY16 budget occurred in the benefits area of the budget. This variance was caused by shifts in plan types and an increase in those opting for insurance, increasing costs beyond the budgetary appropriation. These unanticipated events resulted in a net over expenditure of \$78,156 in this area. All in all, total expenditures fell within the total FY16 appropriation leaving a positive variance of \$144,497 remaining at the close of the year.

There were a number of fund transfers and transactions that occurred in FY16 including three (3) appropriations from the Excess and Deficiency Fund. These transactions totaled \$389,000. They were as follows: 1) \$300,000 to the stabilization fund, 2) \$14,000 for painting of the wrestling dome to a capital project fund, 3) \$75,000 to the OPEB trust fund. In addition, there were two appropriations made to fund one-time or unanticipated cost in the FY17 budget; \$2,867 for WeVideo licenses and \$75,600 to pay for math curriculum transition costs. Transfers into the general fund from special revenue funds included \$500,000 from the athletic and co-curricular revolving fund and \$44,000 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. In addition, there was an audit adjustment related to abandoned property (un-reconciled variances held in suspense since 2004, old Student activity class accounts, and unclaimed outstanding checks from 2004 to 2012. The total adjustment for these items was \$18,631.

The transfer of \$300,000 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. Funds had not been allocated to Stabilization since the FY11 budget period. In addition, \$75,000 was transferred from E&D to the OPEB Trust Fund in order to satisfy our funding obligation and to positively impact our bond rating.

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 has been 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 potential capital project warrant articles for all three communities and will pursue potential alternate funding resources such as grants. The District will also perform an extensive analysis of student enrollment and staffing in FY17 that will also assist in future efficient fiscal management.

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:

Chief Financial Officer
Masconomet Regional School District
20 Endicott Road
Boxford, Massachusetts 01921

Masconomet Regional School District
Statement of Net Position
June 30, 2016

	<u>Government - Wide Activities</u>
Assets	
Current:	
Cash/Investments	\$ 5,222,402
Accounts Receivable:	
Other	6,498
Intergovernmental	968,509
Noncurrent:	
Accounts Receivable:	
Intergovernmental	6,830,821
Capital Assets:	
Assets Not Being Depreciated (Land)	86,950
Assets Being Depreciated, Net	29,863,703
Total Assets	42,978,883
 Deferred Outflows of Resources	
Pension	354,065
Deferred Debit on Debt Refunding Issue	50,000
Total Deferred Outflows of Resources	404,065
 Liabilities	
Current:	
Warrants Payable	674,182
Accrued Wages Payable	74,305
Withholdings Payable	167,215
Accrued Interest Payable	133,517
Bonds Payable	1,845,000
Leasing Payable	60,179
Noncurrent:	
Compensated Absences Payable	76,533
Bonds Payable	9,635,000
Leasing Payable	63,743
Net Pension Liability	6,617,673
Other Post Employment Benefits Payable	32,620,000
Total Liabilities	51,967,347
 Deferred Inflows of Resources	
Pension	62,361
 Net Position	
Net Investment in Capital Assets	26,281,842
Restricted for:	
Capital Projects	90,457
Other Purposes	2,120,813
Unrestricted (Deficit) (See Footnote II A-Page 25)	(37,139,872)
Total Net Position	\$ (8,646,760)

Masconomet Regional School District
Statement of Activities
Fiscal Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
<i>Governmental Activities:</i>					
Instruction:					
Middle School	\$ 6,516,633	\$ 540	\$ -	\$ -	\$ (6,516,093)
High School	13,126,464	797,011	6,855	-	(12,322,598)
Special Education	5,151,419	39,046	1,231,392	-	(3,880,981)
Other	693,830	-	42,790	-	(651,040)
Support Services:					
Administration	388,964	2,607	12,551	-	(373,806)
Business	7,059,461	529,734	180,107	-	(6,349,620)
Buildings and Grounds	3,167,172	-	-	-	(3,167,172)
Food Services	790,159	853,400	-	-	63,241
MTRS Pension Payments	3,928,375	-	3,928,375	-	-
Student Activity Funds	325,692	333,134	335	-	7,777
Debt Service	597,274	-	381,539	-	(215,735)
Total Governmental Activities	<u>\$ 41,745,443</u>	<u>\$ 2,555,472</u>	<u>\$ 5,783,944</u>	<u>\$ -</u>	<u>(33,406,027)</u>
<i>General Revenues:</i>					
					24,548,293
					1,088,247
					4,925,754
					9,145
					13,430
					(72,195)
					<u>30,512,674</u>
					<u>(2,893,353)</u>
Net Position:					
					<u>(5,753,407)</u>
					<u>\$ (8,646,760)</u>

Masconomet Regional School District
 Governmental Funds
 Balance Sheet
 June 30, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash/Investments	\$ 2,890,520	\$ 2,331,882	\$ 5,222,402
Accounts Receivable:			
Other	6,498	-	6,498
Intergovernmental	7,786,279	13,051	7,799,330
Total Assets	\$ 10,683,297	\$ 2,344,933	\$ 13,028,230
 Liabilities:			
Warrants Payable	\$ 672,577	\$ 1,605	\$ 674,182
Accrued Wages Payable	74,305	-	74,305
Withholdings Payable	167,215	-	167,215
Total Liabilities	914,097	1,605	915,702
 Deferred Inflows of Resources:			
Unavailable Revenue	7,786,279	24,910	7,811,189
Total Deferred Inflows of Resources	7,786,279	24,910	7,811,189
 Fund Equity:			
Fund Balances:			
Restricted (See Schedule on Pages 57 and 58)	-	2,211,270	2,211,270
Committed (See Schedule on Pages 57 and 58)	-	107,148	107,148
Assigned	78,467	-	78,467
Unassigned	1,904,454	-	1,904,454
Total Fund Balances	1,982,921	2,318,418	4,301,339
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 10,683,297	\$ 2,344,933	\$ 13,028,230

Masconomet Regional School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Assessments to Member Towns - Operating	\$ 24,548,293	\$ -	\$ 24,548,293
Assessments to Member Towns - Capital and Debt	1,088,247	-	1,088,247
Intergovernmental			
State Aid - Education	4,925,724	-	4,925,724
State Aid - Transportation	451,004	-	451,004
State Aid - School Construction	1,291,498	-	1,291,498
Other State and Federal Grants	35,923	1,281,036	1,316,959
MTRS Pension Payments	3,928,375	-	3,928,375
Charges for Services	46,637	1,985,789	2,032,426
Departmental		11,239	11,239
Contributions and Donations	-	192,658	192,658
Investment Income	9,146	336	9,482
Miscellaneous	25,968	-	25,968
Total Revenues	<u>36,350,815</u>	<u>3,471,058</u>	<u>39,821,873</u>
<u>Expenditures:</u>			
Instruction:			
Middle School	5,712,056	1,403	5,713,459
High School	11,304,813	233,310	11,538,123
Special Education	3,679,042	966,748	4,645,790
Other	561,096	55,628	616,724
Support Services:			
Administration	327,590	11,168	338,758
Business	7,009,366	242,226	7,251,592
Buildings and Grounds	1,678,243	51,422	1,729,665
Food Services	-	790,159	790,159
MTRS Pension Payments	3,928,375	-	3,928,375
Student Activity Funds	-	325,692	325,692
Debt Service	2,379,745	-	2,379,745
Total Expenditures	<u>36,580,326</u>	<u>2,677,756</u>	<u>39,258,082</u>
Excess of Revenues Over (Under) Expenditures	<u>(229,511)</u>	<u>793,302</u>	<u>563,791</u>
Other Financing Sources (Uses):			
Transfers In	581,481	42,205	623,686
Transfers (Out)	(117,205)	(578,676)	(695,881)
Total Other Financing Sources (Uses)	<u>464,276</u>	<u>(536,471)</u>	<u>(72,195)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>234,765</u>	<u>256,831</u>	<u>491,596</u>
Fund Balance, Beginning	1,748,156	2,061,587	3,809,743
Fund Balance, Ending	<u>\$ 1,982,921</u>	<u>\$ 2,318,418</u>	<u>\$ 4,301,339</u>

Masconomet Regional School District
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Position
 June 30, 2016

Total Governmental Fund Balances	\$ 4,301,339
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	29,950,653
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	7,811,189
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.	50,000
In the Statement of Activities, interest is accrued on outstanding long term debt. In the fund financial statements, interest is not reported until due.	(133,517)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Compensated Absences Payable	(76,533)
Bonds Payable	(11,480,000)
Leasing Payable	(123,922)
Other Post Employment Benefits Payable	(32,620,000)
Net Pension Liabilities	(6,617,673)
Pension related deferred outflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds:	354,065
Pension related deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds:	(62,361)
	(62,361)
Net Position of Governmental Activities	\$ (8,646,760)

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, 2016

Net Change in Fund Balances - Total Governmental Funds	\$ 491,596
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.	(1,074,590)
In the statement of activities, the gain or (loss) on the trade in of capital assets is reported, whereas in the governmental funds, the gain is not reported.	(12,539)
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.	(885,049)
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.	1,643,578
This item represents the current year OPEB cost. Since it is a long term liability, it is not reported in the governmental funds.	(2,970,000)
This item represents the current year Pension cost. Since it is a long term liability, it is not reported in the governmental funds.	(87,809)
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>1,460</u>
Change in Net Position of Governmental Activities	<u><u>\$ (2,893,353)</u></u>

Masconomet Regional School District
Statement of Fiduciary Net Position
Fiduciary Funds - OPEB Trust
June 30, 2016

	<u>OPEB Trust</u>
Assets	
Cash	\$ 403,458
Total Assets	<u>403,458</u>
Liabilities	
Current:	
Other Liabilities	<u>-</u>
Total Liabilities	<u>-</u>
Net Position	
Other Post Employment Benefits Trust	<u>403,458</u>
Total Net Position	<u><u>\$ 403,458</u></u>

Masconomet Regional School District
Statement of Changes in Fiduciary Net Position
Fiduciary Funds - OPEB Trust
Fiscal Year Ended June 30, 2016

	<u>OPEB Trust</u>
Additions:	
Interest, Dividends, and Contributions	<u>\$ 1,380</u>
Deductions:	
Other Post Employment Benefits	<u>-</u>
Change in Net Position Before Transfers	<u>1,380</u>
Transfers In (Out):	
Operating Transfers In	<u>75,000</u>
Change in Net Position	<u>76,380</u>
Net Position:	
Beginning of the Year	<u>327,078</u>
End of the Year	<u><u>\$ 403,458</u></u>

Masconomet Regional School District
Notes to the Financial Statements
June 30, 2016

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, 2016, 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, 2016,

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 57 and 58),

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 57 and 58),

4. Assigned, intended (by the School Committee, Superintendent or Chief Financial Officer) 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>
Fund Balances:			
Restricted for:			
202	Book Store	\$ -	\$ 10,468
203	College Prep	-	8,344
205	Community School Program	-	12,198
217	Circuit Breaker	-	754,504
218	Athletic & Co-curricular	-	83,163
219	Non Resident Tuition	-	112,402
220	School Lunch	-	353,419
221	Use of School Property	-	94,083
222	Non Resident Tuition - International	-	46,870
225	Summer School	-	51,334
226	SPED Summer Program	-	9,785
258	TTEF Gift Fund	-	124,735
262	Cultural Council HS	-	85
263	Fidelity Gift Fund	-	750
265	Joe Carroll Gift Fund	-	3,273
266	Gifts & Donations	-	31,763
267	Music Dept Gift Fund	-	2,152
271	Sped access - Program Improvement	-	279
276	Title IIA Teacher Quality	-	1,090
277	Title IIA Teacher Quality	-	800
301	Capital Project - Irrigation System	-	22,879
302	Capital Project - Waste Water Tmt Plant	-	8,884
309	Capital Project - Technology	-	7,380
312	Capital Project - Tech Infrastructure	-	36,530
313	Capital Project - Tech Pilot Program	-	784
317	Capital Project - Painting	-	14,000
702	Mitigation Trust Fund	-	160,356
801	Student Activity Middle School	-	46,223
802	Student Activity High School	-	212,737
Total Restricted		-	2,211,270

<u>Fund</u>	<u>Account</u>	<u>General Fund</u>	<u>Non Major Funds</u>
Committed to:			
210	Restitution	-	33,466
211	MS Obligations/Lost Book	-	4,718
212	HS Obligations/Lost Book	-	25,831
245	Accounting Software	-	7,629
246	Professional Negotiator	-	28,179
247	Mandated Compliance	-	7,325
Total Committed		-	107,148
<u>Account</u>			
Assigned to:			
	Reserved for Subsequent Year Expenditures	78,467	-
Unassigned		1,904,454	-
Total Fund Balances		<u>\$ 1,982,921</u>	<u>\$ 2,318,418</u>

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 \$659,606. 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 \$32,620,000, is required to be recorded in the Statement of Net Position. In addition, the GASB 68 Net Pension Liability of \$6,617,673, is recorded in the financial statements as of June 30, 2016.

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, 2016:

	<u>Revenues</u>
As Reported Budget Basis	\$ 32,419,741
Adjustments:	
Other Revenues Not Reported on Budget Basis (Stabilization Fund)	2,699
MTRS - Pension Payments	3,928,375
As Reported GAAP Statement	<u>\$ 36,350,815</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 32,651,951
Adjustments:	
MTRS - Pension Payments	3,928,375
As Reported GAAP Statement	<u>\$ 36,580,326</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, 2016, none (\$0) of the District's bank balance of \$4,381,838 was exposed to credit risk.

Investments

The District has an investment in MMDT in the amount of \$2,473,526.

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, 2016, 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, 2016, that are subject to reporting using the fair value hierarchy.

B. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental Activities:				
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	7,278,500	180,754	(229,780)	7,229,474
Vehicles	66,517	-	-	66,517
Total Capital Assets Being Depreciated	<u>54,280,879</u>	<u>180,754</u>	<u>(229,780)</u>	<u>54,231,853</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>Capital Assets (continued):</u>				
Less Accumulated Depreciation for:				
Buildings and Improvements	(16,103,073)	(1,177,409)	-	(17,280,482)
Furniture, Fixtures and Equipment	(7,187,051)	(72,333)	217,241	(7,042,143)
Vehicles	(39,923)	(5,602)	-	(45,525)
Total Accumulated Depreciation	<u>(23,330,047)</u>	<u>(1,255,344)</u>	<u>217,241</u>	<u>(24,368,150)</u>
Total Capital Assets Being Depreciated, Net	<u>30,950,832</u>	<u>(1,074,590)</u>	<u>(12,539)</u>	<u>29,863,703</u>
Governmental Activities Capital Assets, Net	<u>\$ 31,037,782</u>	<u>\$ (1,074,590)</u>	<u>\$ (12,539)</u>	<u>\$ 29,950,653</u>

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

Instruction:	
Middle School	\$ 16,466
High School	30,700
Support Services:	
Buildings and Grounds	<u>1,208,178</u>
	<u>\$ 1,255,344</u>

C. Accounts Receivable

Intergovernmental:

Due from Commonwealth of Massachusetts:

Current:

State Grant	\$ 13,051	
School Building Assistance Bureau Grant	955,458	
Total Current		<u>\$968,509</u>

Noncurrent:

School Building Assistance Bureau Grant		<u>6,830,821</u>
Total Intergovernmental		<u>\$7,799,330</u>

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 \$1,294,498 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 \$10,331,984 over the life of the related bond. The projected reimbursements for future interest costs are \$1,635,746. 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, 2016 bear interest at various rates.

Changes in Long Term Debt - the following is a summary of bond transactions for the year ended June 30, 2016.

<u>Project</u>	<u>Issue Date</u>	<u>Rate</u>	<u>Outstanding June 30, 2015</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding June 30, 2016</u>
School Construction	April 1, 2002	4.37% - 5.10%	\$ 4,595,000	\$ -	\$ (570,000)	\$ 4,025,000
School Construction	September 15, 2003	3.50% - 5.00%	5,205,000	-	(560,000)	4,645,000
School Construction - Refunding Issue	July 15, 2009	3.00% - 5.00%	3,460,000	-	(650,000)	2,810,000
Total Outstanding			<u>\$ 13,260,000</u>	<u>\$ -</u>	<u>\$ (1,780,000)</u>	<u>\$ 11,480,000</u>

Summary of Debt Service Requirements to Maturity

	<u>General Long Term Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,845,000	\$ 528,225	\$ 2,373,225
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
2021-2023	2,225,000	149,750	2,374,750
	<u>\$ 11,480,000</u>	<u>\$ 1,971,505</u>	<u>\$ 13,451,505</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 & Interest</u>	<u>Refunding Bonds Principal & Interest</u>
2017	\$ 858,842	\$ 779,355
2018	860,892	779,255
2019	865,012	777,175
2020	871,612	777,000
Total	<u>\$ 3,456,358</u>	<u>\$ 3,112,785</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, 2016 is \$50,000.

(iii) Changes in the government's long-term liabilities for the year ended June 30, 2016 are as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>	<u>Current Portion</u>
Compensated Absences Payable	\$ 63,022	\$ 907	\$ 12,604	\$ 76,533	
Bonds Payable	13,260,000	-	(1,780,000)	11,480,000	\$ 1,845,000
Leasing Payable	-	123,922	-	123,922	60,179
Net Pension Liability	6,211,147	908,009	(501,483)	6,617,673	-
Other Post Employment Benefits Payable	29,650,000	4,160,000	(1,190,000)	32,620,000	-
Total Governmental Activities	<u>\$ 49,184,169</u>	<u>\$ 5,192,838</u>	<u>\$ (3,458,879)</u>	<u>\$ 50,918,128</u>	<u>\$ 1,905,179</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.

	Transfers <u>In</u>	Transfers <u>(Out)</u>	<u>Total</u>
General	\$ 581,481	\$ (117,205)	\$ 464,276
Non-Major Governmental	42,205	(578,676)	(536,471)
OPEB Trust	75,000	-	75,000
Agency Fund	-	(2,805)	(2,805)
Total	<u>\$ 698,686</u>	<u>\$ (698,686)</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/Financial%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 creditable service of the member at retirement:

<u>Benefit %</u>	<u>Group 1</u>	<u>Group 2</u> <i>Hired after April 1 2012</i>	<u>Group 4</u>
2.50%	67+	62+	57+
2.35%	66	61	56
2.20%	65	60	55
2.05%	64	59	54
1.90%	63	58	53
1.75%	62	57	52
1.60%	61	56	51
1.45%	60	55	50

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, 2016 was 21.35% 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 \$501,483 for the year ending June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$6,617,673 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2015, the District's proportion was 1.821%.

Chapter 176 of the Acts of 2011 was incorporated in this valuation, which changes many of the benefit features for members hired on or after April 2, 2012. In addition, the COLA base was increased to \$15,000 effective July 1, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$589,292. Since the system performs an actuarial valuation bi-annually, there are not reported differences between expected and actual experience or a change of assumptions as of December 31, 2014. At June 30, 2016, 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	\$ -	\$ -
Change in assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	354,065	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(62,361)
Contributions subsequent to the measurement date	-	-
	<u>\$ 354,065</u>	<u>\$ (62,361)</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	\$ 71,993
2018	71,993
2019	71,993
2020	78,695
2021	(2,970)
Total	<u>\$ 291,704</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2014, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2015.

Valuation Date	January 1, 2014														
Actuarial Cost Method	Entry age normal cost method														
Amortization Method	Closed - approximate level percent payroll (in prior valuation - Level dollar for ERI liability for most units, 4.5% annual increases for ERI Liability for other units, increasing amortization for the remaining unfunded liability. Increase in total appropriation not to exceed 8%).														
Remaining Amortization Period	20 years for the fresh start base														
Asset Valuation Method	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. (in prior valuation Sum of actuarial value at beginning of year and increase in cost value during year excluding realized appreciation or losses plus 20 percent of market value at the end of year -as reported in the Annual Statement - in excess of that preliminary value, adjusted to be within 20 percent of their market value).														
Salary Increases	<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%														
Investment Rate of Return/Discount Rate	8.0% per year (8.25% in prior valuation)														
Cost of Living Adjustments	3.00% of first \$13,000 (granted annually)														
Mortality Rates Were Based on the Tables Noted Below:															
Pre-Retirement	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 health annuitant table is used.														
Disabled Retiree	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 RP2000 projected 18 years with scale AA)														

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 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>
Core Bonds	13.00%	0.97%
Value-Added Bonds	10.00%	3.80%
Large Cap Equities	14.50%	4.61%
Mid/Small Cap Equities	3.50%	4.85%
International Equities	16.00%	5.10%
Emerging Market Equities	6.00%	6.31%
Private Equity	10.00%	6.55%
Real Estate	10.00%	3.40%
Timber/Natural Resources	4.00%	3.64%
Hedge Funds	9.00%	3.64%
Cash/Portfolio Completion	4.00%	0.00%
	<u>100.00%</u>	

Rate of Return

The annual money-weighted rate of return on pension plan investments for December 31, 2015 (net of investment expenses) was 1.04%. (8.48% for December 31, 2014). 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 8.00% (8.25% 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 8.0%, 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 (7.0%) or 1-percentage-point higher (9.0%) than the current rate:

	1% Decrease <u>(7.00%)</u>	Discount Rate <u>(8.00%)</u>	1% Increase <u>(9.00%)</u>
District's proportionate share of the Net Pension Liability	\$8,135,665	\$6,617,673	\$5,444,452

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/Financial%20Statements%2012.31.pdf

C. 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, 2016, the District's proportionate share of the collective pension expense was \$3,928,375. 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, 2016, or fund balance/net position at June 30, 2016.

The Commonwealth's proportionate share of the collective net pension liability associated with the District is \$48,433,340.

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/fy2015-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, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015.- This valuation used the following assumptions:

1. (a) 7.5% investment rate of return (8.0% in the previous valuation), (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase 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, 2014 and 2013 are summarized in the following table:

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return 2015</u>
Global Equity	40.00%	6.90%
Core fixed income	13.00%	2.40%
Private Equity	10.00%	8.50%
Real estate	10.00%	6.50%
Value Added Fixed Income	10.00%	5.80%
Hedge Funds	9.00%	5.80%
Portfolio Completion Strategies	4.00%	5.50%
Timber/Natural Resources	4.00%	6.60%
	<hr/> <hr/> <u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth’s contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the 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

Since the District is not responsible for its proportionate share of the collective net pension liability, a sensitivity analysis of the discount rate is not required.

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/comptroller/docs/reports-audits/cafr/fy2015-cafr.pdf>

D. Other Post Employment Benefits (OPEB) Disclosures

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 (GASB 43) – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and Statement No. 45 (GASB 45), “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” that are effective June 30, 2016. These statements require the District to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis. Certain information that is required to be disclosed by GASB 45, is noted below. In addition, certain Required Supplementary Information (RSI), required by GASB 45, is presented following the notes to the financial statements.

Plan Description. In addition to providing pension benefits described above, the District provides retired employees and their spouses and dependents with payments for a portion of their health care and life insurance benefits. Currently there are approximately 254 active employees and 141 retired employees who are eligible to participate in the plan.

Funding Policy. 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. The market value of Plan Assets as of June 30, 2016 was \$403,458.

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)	\$4,570,000
Interest on Net OPEB Obligation	1,330,000
Adjustment to Annual Required Contribution	(1,740,000)
Annual OPEB Cost (Expense)	<u>4,160,000</u>
Contributions Made	(1,190,000)
Increase in Net OPEB Obligation	2,970,000
Net OPEB Obligation (NOO)- Beginning of Year	<u>29,650,000</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$32,620,000</u></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>
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	25.3%	\$32,620,000

Funded Status and Funding Progress. An actuarial valuation was prepared on July 1, 2014. The Actuarial Accrued Liability (AAL) was \$36,930,000 and the Actuarial Market Value of Plan Assets was \$330,000, leaving an Unfunded Actuarial Accrued Liability (UAAL) of \$36,600,000 as of July 1, 2014.

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 42 under “Funding Policy”, 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.

In the actuarial valuation, the projected unit cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses).

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	\$784,949
High School	1,553,505
Special Education	505,573
Other	77,106
Support Services:	
Administration	45,017
Business	963,227
Buildings and Grounds	230,623
Total	<u>\$4,160,000</u>

E. Subsequent Year Authorization

The School Committee adopted a fiscal year 2017 budget totaling \$34,020,482. The accompanying financial statements do not reflect the adoption of the fiscal year 2017 budget. The budgetary amounts will be financed by the following sources:

Member Assessments	\$ 26,472,353
State and Federal Aid	6,705,742
Local Receipts	59,500
Excess and Deficiency	78,467
Fund Transfers	704,420
Total	<u>\$ 34,020,482</u>

F. Implementation of New GASB Pronouncements

During fiscal year 2016, the following GASB pronouncements were implemented:

- The GASB issued Statement No. 72 *Fair Value Measurement and Application*. The standard created a hierarchy of the valuation methods used in determining the fair value of investments. The implementation of this pronouncement required new disclosures related to the District's investments.
- The GASB issued Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement No 79, *Certain External Investment Pools and Pool Participants*. The implementation of this pronouncement did not impact the financial statements.

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

- 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 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 GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2018.
- The GASB issued Statement No. 77, *Tax Abatement Disclosures*, which is required to be implemented in fiscal year 2017.
- 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 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 GASB issued Statement No 81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in fiscal year 2018.
- 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.

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 Statements #74 & 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, 2016

	<u>Budgeted Amounts</u>		Actual Budget Basis Amounts	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Assessments to Member Towns - Operating	\$ 24,548,293	\$ 24,548,293	\$ 24,548,293	\$ -
Assessments to Member Towns - Capital and Debt	1,088,247	1,088,247	1,088,247	-
Intergovernmental				
State Aid - Education	4,915,659	4,915,659	4,925,724	10,065
State Aid - Transportation	382,527	382,527	451,004	68,477
State Aid - School Construction	1,291,498	1,291,498	1,291,498	-
Other State and Federal Aid	44,200	44,200	35,923	(8,277)
Departmental	42,000	42,000	46,637	4,637
Investment Income	8,100	8,100	6,447	(1,653)
Miscellaneous	2,800	2,800	25,968	23,168
Total Revenues	<u>32,323,324</u>	<u>32,323,324</u>	<u>32,419,741</u>	<u>96,417</u>
<u>Expenditures</u>				
Instruction:				
Middle School	5,670,445	5,737,940	5,712,056	25,884
High School	11,531,776	11,440,079	11,304,813	135,266
Special Education	3,822,221	3,727,636	3,679,042	48,594
Other	514,831	575,913	561,096	14,817
Support Services:				
Administration	315,848	327,838	327,590	248
Business	6,930,226	7,035,078	7,009,366	25,712
Buildings and Grounds	1,744,874	1,686,737	1,678,243	8,494
Debt Service	2,379,745	2,379,745	2,379,745	-
Total Expenditures	<u>32,909,966</u>	<u>32,910,966</u>	<u>32,651,951</u>	<u>259,015</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(586,642)</u>	<u>(587,642)</u>	<u>(232,210)</u>	<u>355,432</u>
<u>Other Financing Sources (Uses):</u>				
Excess and Deficiency	42,642	432,642	432,642	-
Operating Transfers In	544,000	544,000	546,806	2,806
Operating Transfers Out	-	(389,000)	(389,093)	(93)
Total Other Financing Sources (Uses)	<u>586,642</u>	<u>587,642</u>	<u>590,355</u>	<u>2,713</u>
Excess (Deficiency) of Revenues and Other Financing Sources (Uses) Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 358,145</u>	<u>\$ 358,145</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>2016</u>	<u>2015</u>
District's proportionate share of net pension liability (asset) (%)	1.821000%	1.831000%
District's proportionate share of net pension liability (asset) (\$)	6,617,673	6,211,147
District's covered-employee payroll	2349100	2,249,066
District's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	281.71%	276.17%
Plan fiduciary net position as a percentage of the pension liability	51.01%	52.27%

*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>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>	<u>2007</u>
Contractually required contribution	\$ 500,382	\$ 469,570	\$ 433,821	\$ 382,468	\$ 340,619	\$ 298,631	\$ 291,418	\$ 272,654	\$ 283,647	\$ 283,647
Contributions in relation to the contractually required contribution	<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>	<u>(283,647)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	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	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>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>	<u>2007</u>
District's proportionate share of the collective net pension liability (asset) (%)	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>\$ 48,433,340</u>	<u>\$ 37,657,633</u>								
Total	<u>\$ 48,433,340</u>	<u>\$ 37,657,633</u>								
District's covered-employee payroll	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%								
Plan fiduciary net position as a percentage of the pension liability	55.38%	61.64%								
District's expense and revenue recognized for Commonwealth support	<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, 2016

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)]
7/1/2010	\$0	\$43,630,000	\$43,630,000	0%	\$14,060,000	310%
7/1/2011	\$0	\$47,270,000	\$47,270,000	0%	\$14,670,000	322%
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%

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	25.3%	\$32,620,000

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, 2016

Interim Valuation Date	July 1, 2014
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar Basis/Open; Over 30 Years
Asset Valuation Method	Market Value

Actuarial Assumptions:

Investment Rate of Return	4.5% Per Annum
Medical/Drug Cost Trend Rate	9.5% first year, decreases by 0.5% per year through year 10 to 5.0%

Plan Membership:

Current retirees, beneficiaries, and dependents	141
Current active members	<u>254</u>
Total	<u>395</u>

See Notes to the Required Supplementary Information

Masconomet Regional School District
Notes to the Required Supplementary Information
June 30, 2016

(A) 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, 2016:

	<u>Revenues</u>
As Reported Budget Basis	\$ 32,419,741
Adjustments:	
Other Revenues Not Reported on Budget Basis (Stabilization Fund)	2,699
MTRS - Pension Payments	3,928,375
As Reported GAAP Statement	\$ 36,350,815
	<u>Expenditures</u>
As Reported Budget Basis	\$ 32,651,951
Adjustments:	
MTRS - Pension Payments	3,928,375
As Reported GAAP Statement	\$ 36,580,326

(B) 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.

iv. 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.

v. Change in Assumptions

Mortality:

The RP-2000 mortality table (sex-distinct) projected with scale BB and Generational Mortality. (Prior valuation used RP-2000 mortality table projected 18 years with scale AA.). During employment the healthy employee mortality table is used. Post-employment the healthy annuitant table is used.

Disabled Life Mortality:

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 P-2000 mortality table projected 18 years with scale AA).

Discount Rate:

The discount rate was lowered from 8.25% to 8.0%.

Salary Increases

The salary increase assumption was changed from a flat 5% to a 7.5% increase declining to an ultimate rate of 3.75% in year five.

Administrative Expense

The administrative expense assumption was changed from \$945,000 to \$1,110,000.

vi. Schedule of District's Proportionate Share of the Net Pension Liability - Essex County 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.

vii. 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.

viii. 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.

(C) Other Postemployment Benefits (OPEB) Disclosures

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 141 active employees and 254 retired employees who are eligible to participate in the plan.

Funding Policy. 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.

Supplementary Information

Masconomet Regional School District
Schedule of Nonmajor Governmental Funds
Fiscal Year Ended June 30, 2016
(Continued)

<u>Fund</u>	<u>Account</u>	<u>Balance Beginning July 1, 2015</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfers In (Out)</u>	<u>Balance Ending June 30, 2016</u>	<u>GASB 54</u>
<u>Special Revenue Funds</u>							
<u>Revolving Funds</u>							
202	Book Store	\$ 10,277	\$ 23,608	\$ 23,417	\$ -	\$ 10,468	Restricted
203	College Prep	6,270	46,325	44,251	-	8,344	Restricted
205	Community School Program	12,198	-	-	-	12,198	Restricted
210	Restitution	49,155	745	16,433	-	33,467	Committed
211	MS Obligations/Lost Book	5,581	540	1,404	-	4,717	Committed
212	HS Obligations/Lost Book	68,502	10,699	53,370	-	25,831	Committed
217	Circuit Breaker	477,418	754,504	477,418	-	754,504	Restricted
218	Athletic & Co-curricular	48,559	601,263	66,659	(500,000)	83,163	Restricted
219	Non Resident Tuition - SPED	112,402	-	-	-	112,402	Restricted
220	School Lunch	359,088	828,490	790,159	(44,000)	353,419	Restricted
221	Use of School Property	99,000	77,985	85,002	2,100	94,083	Restricted
222	Non Resident Tuition - International	17,478	50,100	20,708	-	46,870	Restricted
225	Summer School	50,854	18,380	17,900	-	51,334	Restricted
226	SPED Summer Program	4,025	5,760	-	-	9,785	Restricted
245	Accounting Software	7,629	-	-	-	7,629	Committed
246	Professional Negotiator	28,179	-	-	-	28,179	Committed
247	Mandated Compliance	13,050	-	5,725	-	7,325	Committed
	Total Revolving Funds	<u>1,369,665</u>	<u>2,418,399</u>	<u>1,602,446</u>	<u>(541,900)</u>	<u>1,643,718</u>	
<u>Gifts and Donations Funds</u>							
258	TTEF/MEF Gift Fund	41,159	180,107	96,531	-	124,735	Restricted
262	Cultural Council HS	85	-	-	-	85	Restricted
263	Fidelity Gift Fund	750	-	-	-	750	Restricted
265	Joe Carroll Gift Fund	3,421	-	148	-	3,273	Restricted
266	Gifts & Donations	30,380	12,551	11,168	-	31,763	Restricted
267	Music Dept Gift Fund	4,252	-	-	(2,100)	2,152	Restricted
	Total Gifts and Donations Funds	<u>80,047</u>	<u>192,658</u>	<u>107,847</u>	<u>(2,100)</u>	<u>162,758</u>	
<u>Grants</u>							
268	Essential School Health Service Grant	-	6,855	6,855	-	-	Restricted
270	SPED IDEA - (DOE 240)	-	420,736	420,736	-	-	Restricted
271	Sped access - prog imp (274)	-	16,245	15,966	-	279	Restricted
272	Title I CO (FY15, Yr2) (DOE 305)	-	306	307	1	-	Restricted
273	Title I (DOE 305)	-	55,846	55,846	-	-	Restricted
276	Title IIA Teacher Qual carry (DOE 140 165)	-	15,543	14,453	-	1,090	Restricted
277	Title IIA Teacher Quality CO (FY15, Yr2) (DOE 140)	-	10,964	10,164	-	800	Restricted
287	Title IIA Teacher Quality (DOE 140)	(92)	-	-	92	-	
290	SPED IDEA -(DOE 240)	7,935	-	7,934	(1)	-	Restricted
291	Sped access - prog imp (274)	4,440	-	4,440	-	-	Restricted
292	Title I Carryover (Fund 305)	36	-	36	-	-	Restricted
293	Title I Carryover (Fund 305)	-	38	37	(1)	-	Restricted
294	Academic Support Summer (DOE 625)	-	-	-	-	-	Restricted
295	Academic Support (DOE 632)	-	-	-	-	-	Restricted
296	Title IIA (DOE 140) FY14 YR2	-	-	-	-	-	Restricted
297	Title IIA (DOE 140) FY14 YR2	30	-	31	1	-	Restricted
	Total Grant Funds	<u>12,349</u>	<u>526,533</u>	<u>536,805</u>	<u>92</u>	<u>2,169</u>	

Masconomet Regional School District
Schedule of Nonmajor Governmental Funds
Fiscal Year Ended June 30, 2016
(Concluded)

<u>Fund</u>	<u>Account</u>	Balance Beginning July 1, 2015	Actual Receipts	Expenditures	Transfers In (Out)	Balance Ending June 30, 2016	<u>GASB 54</u>
<u>Student Activity Funds</u>							
801	Student Activity MS	40,175	61,896	55,848	-	46,223	Restricted
802	Student Activity HS	211,008	271,573	269,844	-	212,737	Restricted
	Total Student Activity Funds	<u>251,183</u>	<u>333,469</u>	<u>325,692</u>	<u>-</u>	<u>258,960</u>	
	<i>Total Special Revenue Funds</i>	<u>1,713,244</u>	<u>3,471,059</u>	<u>2,572,790</u>	<u>(543,908)</u>	<u>2,067,605</u>	
<u>Capital Projects Funds</u>							
301	Capital Project - Irrigation System	22,879	-	-	-	22,879	Restricted
302	Capital Project - Waste Water Tmt Plant	9,869	-	985	-	8,884	Restricted
309	Capital Project - SIS/LMS	22,390	-	15,010	-	7,380	Restricted
312	Capital Project - Tech Infrastructure	46,330	-	9,800	-	36,530	Restricted
313	Capital Project - Tech Pilot Program	784	-	-	-	784	Restricted
315	Capital Project - Middle School hot water tank	25,000	-	24,800	(200)	-	Restricted
316	Capital Project - Parking Lot Lighting	32,000	-	25,637	(6,363)	-	Restricted
317	Capital Project - Painting	-	-	-	14,000	14,000	Restricted
	<i>Total Capital Projects Funds</i>	<u>\$ 159,252</u>	<u>\$ -</u>	<u>\$ 76,232</u>	<u>\$ 7,437</u>	<u>\$ 90,457</u>	
702	Mitigation Trust Fund	<u>\$ 189,091</u>	<u>\$ -</u>	<u>\$ 28,735</u>	<u>\$ -</u>	<u>\$ 160,356</u>	Restricted
	Total Nonmajor Funds	<u>\$ 2,061,587</u>	<u>\$ 3,471,059</u>	<u>\$ 2,677,757</u>	<u>\$ (536,471)</u>	<u>\$ 2,318,418</u>	
<u>Summary of Fund Balances</u>							
	Restricted	\$ 1,889,491				\$ 2,211,270	
	Committed	172,096				107,148	
	Total	<u>\$ 2,061,587</u>				<u>\$ 2,318,418</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 \$403,453, which is shown on Pages 17 and 18.

250 In addition to the funds noted above, the District has a Stabilization Fund which has a balance of \$659,606, as of June 30, 2016. 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, 2016, 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 December 15, 2016.

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
December 15, 2016