

Masconomet Regional School District
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For the Year Ended June 30, 2018

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INDEPENDENT AUDITORS REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Masconomet Regional School District, Massachusetts as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for 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, 2018 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated November 2, 2018, on our consideration of the Masconomet Regional School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Masconomet Regional School District's internal control over financial reporting and compliance.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
November 2, 2018

**Masconomet Regional School District
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2018**

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, 2018.

Financial Highlights

- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,517,227 (Page 12), \$1,129,658 of this fund balance amount relates to the Stabilization Fund which is now required to be included with the general fund for financial statement purposes in accordance with the new GASB 54 requirements. Please see the Notes to the Financial Statements for a description of the GASB 54 requirements on Pages 22 and 23.
- The current fiscal year activity relating to revenues and expenditures resulted in a decrease in Net Position in the amount of \$4,056,984 (Page 11). \$4,525,429 (Page 15) 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 (\$1,240,011) (Page 27) of depreciation expense (relating to the Building Project and other fixed assets) that was recorded in the current year in accordance with the GASB 34 requirements.
- In fiscal year 2018, the District implemented Governmental Accounting Standards Board Statement # 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The new standard requires reporting the entire Net OPEB Liability. Previous standards required reporting the liability over a thirty year "phase in" period. The resulting calculation was reported as the Net OPEB **Obligation**. Implementing the new standard required a prior period adjustment that reduced the District's net position by \$33,949,523.
- The Masconomet Regional School District's total outstanding debt decreased by 19.9% during the current year. The decrease was the result of the retirement of \$1,920,000 (Page 8) of general obligation bonds.

Overview of the Financial Statements

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

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

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

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

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

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Masconomet Regional School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the Masconomet Regional School District can be divided into two categories: governmental funds and fiduciary funds.

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

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

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

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. The District also provides supplemental information that is not required relative to Special Revenue, Capital and Other fund activities in an effort to be transparent to the public.

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>2018</u>	<u>2017</u>
Current Assets	\$ 6,822,124	\$ 6,085,437
Noncurrent Assets	4,774,622	5,828,152
Capital Assets	<u>27,527,298</u>	<u>28,767,309</u>
Total Assets	<u>39,124,044</u>	<u>40,680,898</u>
Deferred Outflows of Resources	<u>552,249</u>	<u>616,667</u>
Current Liabilities	2,234,602	2,306,695
Long Term Liabilities	<u>88,614,882</u>	<u>50,556,590</u>
Total Liabilities	<u>90,849,484</u>	<u>52,863,285</u>
Deferred Inflows of Resources	<u>689,702</u>	<u>388,575</u>
Net Position:		
Net Investment in Capital Assets	25,667,361	25,989,099
Restricted	3,006,387	2,439,855
Unrestricted (Deficit) (See Note Below)	<u>(78,634,550)</u>	<u>(74,332,772)</u>
Total Net Position	<u>\$ (49,960,802)</u>	<u>\$ (45,903,818)</u>

The reason the unrestricted Net Position reflects a deficit is that the GASB 75 Net OPEB (Other Post Employment Benefits) liability of \$76,427,043 (See Page 10) and the Net Pension Liability of \$6,421,804 (GASB 68) (See Page 10) are required to be recorded in the Statement of Net Position.

Changes in Net Position

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

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 2,603,461	\$ 2,767,270
Operating Grants and MTRB Contributions	7,735,645	7,448,803
General Revenues:		
Assessments to Member Towns - Operating	25,937,062	25,390,626
Assessments to Member Towns - Capital/Debt	1,588,516	1,081,727
Intergovernmental - Unrestricted	5,148,220	5,045,616
Unrestricted Investment Earnings	51,528	19,715
Other Revenue	16,004	32,903
Total Revenues	<u>43,080,436</u>	<u>41,786,660</u>
Expenses		
Instruction:		
Middle School	7,056,111	6,640,075
High School	13,597,599	13,204,978
Special Education	5,283,276	4,762,510
Other	751,808	760,012
Support Services:		
Administration	434,117	394,270
Business	8,731,268	8,687,771
Buildings and Grounds	3,858,222	3,529,314
Food Services	823,960	831,980
MTRS Pension Payments	5,756,861	5,521,020
Student Activity Funds	348,616	315,256
Debt Service	445,582	521,314
Total Expenses	<u>47,087,420</u>	<u>45,168,500</u>
Increase (Decrease) in Net Position		
Before Transfers	(4,006,984)	(3,381,840)
Transfers	(50,000)	-
Increase (Decrease) in Net Position	<u>\$ (4,056,984)</u>	<u>\$ (3,381,840)</u>

Governmental Activities

In fiscal year 2018 and 2017 member assessments accounted for approximately 64% and 63% (respectively) of the total revenues.

Financial Analysis of the District's Funds

Governmental Funds

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

General Fund

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

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

Changes in Fund Balance General Fund

<u>Fiscal Year</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total Fund Balance</u>	<u>Excess and Deficiency</u>
2011	\$ -	\$ 1,720,052	\$ 1,720,052	\$ 1,086,801
2012	-	1,735,010	1,735,010	1,206,868
2013	-	1,783,409	1,783,409	1,311,833
2014	-	1,494,784	1,494,784	1,255,668
2015	-	1,748,156	1,748,156	1,531,993
2016	78,467	1,904,454	1,982,921	1,320,152
2017	30,000	2,286,844	2,316,844	1,568,969
2018	71,591	2,517,227	2,588,818 *	1,387,569

* The fiscal year ended June 30, 2018 fund balance amount includes \$1,129,658, 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 2017 to 2018, is also shown on Page 13 of the fund financial statements. Please see the Notes to the Financial Statements for a description of the GASB 54 requirements.

Capital Asset and Debt Administration

Capital assets. The Masconomet Regional School District's investment in capital assets for its governmental activities as of June 30, 2018, amounts to \$27,527,298 (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, 2017 and 2018 are as follows:

Capital Assets at June 30 (Net of Depreciation)

	Governmental Activities	
	<u>2018</u>	<u>2017</u>
Land	\$ 86,950	\$ 86,950
Total Capital Assets Not Being Depreciated	<u>86,950</u>	<u>86,950</u>
Buildings and Improvements	27,300,562	28,477,971
Furniture, Fixtures and Equipment	130,000	186,999
Vehicles	9,786	15,389
Total Capital Assets Being Depreciated	<u>27,440,348</u>	<u>28,680,359</u>
Total	<u><u>\$ 27,527,298</u></u>	<u><u>\$ 28,767,309</u></u>

Debt

The District had \$7,715,000 in bonds outstanding on June 30, 2018. This represents a \$1,920,000 decrease or 19.9% reduction from the previous year.

Outstanding Debt at June 30

Governmental Activities	<u>2018</u>	<u>2017</u>
General Obligation Bonds Payable	<u>\$ 7,715,000</u>	<u>\$ 9,635,000</u>

Fiscal Year 2018 Budgetary Items

The FY18 budget passed in all three towns prior to the start of the new fiscal year. After the fiscal year began, the state approved an FY18 budget that provided more state aid for education than was anticipated when the local budgets were adopted in the spring. The increase in general education state aid (Chapter 70) was \$18,820. Although Chapter 70 receipts typically mirror the information provided on the Cherry Sheet, transportation, charter school, and school choice reimbursement do not. The final budget approved by the School Committee used the revenue estimate from the previous year for transportation. The transportation reimbursement in FY18 was more than the amount estimated by \$22,000. The District also received \$57,301 in unanticipated other state aid as partial reimbursement for resident students attending other public schools (charter and school choice). There was also a favorable balance of \$29,289 in interest income and \$18,562 in federal reimbursements. There were also fewer receipts collected from miscellaneous receipts and fees collected for parking and transcripts in FY18 totaling \$16,112. In the end, the year closed with a positive revenue variance of \$129,857.

As is true in any year, there were also areas where unfavorable variances occurred in expenditure accounts. Medical leaves and related substitute costs as well as the need for additional special education paraprofessionals resulted in higher salary expenses at the Middle School. These changes resulted in a \$37,337 cost overrun. Another area where an unfavorable variance occurred was in campus maintenance

and security salaries (\$16,515). Cost overruns in this are due to a higher starting salaries for open positions and overtime required to cover staff on medical leaves. Fortunately, the unfavorable variations were mitigated by several factors. Salary breakage associated with veteran employees who took leaves of absence that were replaced by long-term subs at a much lower salary and unfilled sections and positions related to declining enrollment totaled \$364,170. Positive balances totaling \$39,561 also accumulated in the utility accounts because contracts for gas and electricity were negotiated at lower rates in the fall. Last, \$69,376 in school-based instructional materials and services and \$82,091 in IT services and employee benefits also closed with favorable variances. These are the most notable budget to actual expenditure variances that occurred in FY18. Overall, total expenditures fell within the total FY18 appropriation leaving a positive variance of \$481,639 remaining at the close of the year. The combined positive general fund revenue and expenditure operating variance for FY18 is \$611,496.

There were a number of fund transfers and transactions that occurred in FY18 including six (6) appropriations from the Excess and Deficiency Fund. These transactions totaled \$821,591. They were as follows: 1) \$700,000 to the stabilization fund, 2) \$50,000 to the OPEB Trust Fund, 3) \$6,242 for a transportation consultant, 4) \$16,329 for professional development projects, 5) \$6,200 for email archiving services, and 6) \$42,820 for 10 assistant coaches for the athletic department. Transfers into the general fund from special revenue funds included \$566,000 from the athletic and co-curricular revolving fund, \$20,278 from the Non-Resident Tuition – International revolving fund, \$59,142 from the Use of Facilities revolving fund, and \$59,000 from the Food Service revolving fund. There was one transfer for \$35,000 made from the athletic and co-curricular revolving fund to the FY19 capital budget to pay for tennis court repairs. These transfers represent contributions toward expenses that are related to these programs that are funded in the general fund operating or capital budget.

The School Committee transferred \$700,000 to the Stabilization fund in recognition of the District's aging facilities. These funds were transferred to provide monetary resources for continued repair and maintenance. There were a number of transfers out of Stabilization in FY18 to fund planned and unanticipated repairs to the facility. These transactions totaled \$322,240. They were approved as follows: 1) \$76,000 to repair HVAC equipment and a generator switch, 2) \$16,400 to supplement the entrance door replacement project, 3) \$20,000 to supplement the FY18 Capital Budget (signage project), 4) \$195,000 to fund the FY19 capital project budget (roof repairs, AED's, and electrical repairs), and 5) \$14,840 to renovate House A and C. The HVAC and generator switch, field housing painting, and art and PPS renovation projects were completed and the unspent balance of \$19,284 was transferred back to stabilization fund at the close of the fiscal year.

There were also two prior year auditing adjustments recorded at the close of the fiscal year; \$26,001 to reclassify Medicaid reimbursement revenue inadvertently posted to the Health Grant and \$2,694 in unclaimed, outstanding payroll checks dated between May 2015 and April 2016. The net impact of all of the above FY18 transactions resulted in an increase in the general fund, fund balance (stabilization and the general operating) of \$230,383. The Excess and Deficiency end of year balance is \$1,387,569 and the Stabilization ending fund balance is \$1,129,658.

Request for Information

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

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

Masconomet Regional School District
Statement of Net Position
June 30, 2018

	<u>Government - Wide Activities</u>
Assets	
Current:	
Cash/Investments	\$ 5,392,753
Accounts Receivable:	
Other	5,460
Intergovernmental	1,423,911
Noncurrent:	
Accounts Receivable:	
Intergovernmental	4,774,622
Capital Assets:	
Assets Not Being Depreciated (Land)	86,950
Assets Being Depreciated, Net	27,440,348
Total Assets	39,124,044
 Deferred Outflows of Resources	
Pension	527,249
Other Post Employment Benefits Payable	2,009,629
Deferred Debit on Debt Refunding Issue	25,000
Total Deferred Outflows of Resources	2,561,878
 Liabilities	
Current:	
Withholdings Payable	140,413
Accrued Interest Payable	93,173
Bonds Payable	2,000,000
Other	1,016
Noncurrent:	
Compensated Absences Payable	51,035
Bonds Payable	5,715,000
Net Pension Liability	6,421,804
Net Other Post Employment Benefits Payable	76,427,043
Total Liabilities	90,849,484
 Deferred Inflows of Resources	
Other Post Employment Benefits Payable	107,538
Pension	689,702
Total Deferred Inflows of Resources	797,240
 Net Position	
Net Investment in Capital Assets	25,667,361
Restricted for:	
Capital Projects	799,505
Other Purposes	2,206,882
Unrestricted (Deficit) (See Footnote II A-Page 24)	(78,634,550)
Total Net Position	\$ (49,960,802)

Masconomet Regional School District
Statement of Activities
Fiscal Year Ended June 30, 2018

<u>Functions/Programs</u>	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<i>Governmental Activities:</i>					
Instruction:					
Middle School	\$ 7,056,111	\$ 708	\$ -	\$ -	\$ (7,055,403)
High School	13,597,599	795,833	8,500	-	(12,793,266)
Special Education	5,283,276	11,520	1,465,854	-	(3,805,902)
Other	751,808	-	25,958	-	(725,850)
Support Services:					
Administration	434,117	-	20,277	-	(413,840)
Business	8,731,268	721,904	70,029	-	(7,939,335)
Buildings and Grounds	3,858,222	-	-	-	(3,858,222)
Food Services	823,960	755,839	99,152	-	31,031
MTRS Pension Payments	5,756,861	-	5,756,861	-	-
Student Activity Funds	348,616	317,657	184	-	(30,775)
Debt Service	445,582	-	288,830	-	(156,752)
Total Governmental Activities	\$ 47,087,420	\$ 2,603,461	\$ 7,735,645	\$ -	(36,748,314)
 <i>General Revenues:</i>					
Assessments to Member Towns - Operating					25,937,062
Assessments to Member Towns - Capital/Debt					1,588,516
Intergovernmental - Unrestricted					5,148,220
Unrestricted Investment Earnings					51,528
Other Revenue					16,004
Special Items:					
Transfer, Net					(50,000)
Total General Revenues and Special Items					32,691,330
Change in Net Position					(4,056,984)
Net Position:					
Beginning of the Year					(11,954,295)
Prior Period Adjustment (See Page 44)					(33,949,523)
Beginning of Year as Restated					(45,903,818)
End of Year					\$ (49,960,802)

Masconomet Regional School District
Governmental Funds
Balance Sheet
June 30, 2018

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash/Investments	\$ 2,724,787	\$ 2,667,966	\$ 5,392,753
Accounts Receivable:			
Other	5,460	-	5,460
Intergovernmental	5,828,152	370,381	6,198,533
Total Assets	\$ 8,558,399	\$ 3,038,347	\$ 11,596,746
Liabilities:			
Withholdings Payable	\$ 140,413	\$ -	\$ 140,413
Other Liabilities	1,016	-	1,016
Total Liabilities	141,429	-	141,429
Deferred Inflows of Resources:			
Unavailable Revenue	5,828,152	26,911	5,855,063
Total Deferred Inflows of Resources	5,828,152	26,911	5,855,063
Fund Equity:			
Fund Balances:			
Restricted (See Schedule on Pages 59 and 60)	-	3,006,387	3,006,387
Committed (See Schedule on Pages 59 and 60)	-	75,915	75,915
Assigned	71,591	-	71,591
Unassigned	2,517,227	(70,866)	2,446,361
Total Fund Balances	2,588,818	3,011,436	5,600,254
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 8,558,399	\$ 3,038,347	\$ 11,596,746

Masconomet Regional School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Assessments to Member Towns - Operating	\$ 25,937,062	\$ -	\$ 25,937,062
Assessments to Member Towns - Capital and Debt	1,082,515	506,001	1,588,516
Intergovernmental			
State Aid - Education	5,090,919	-	5,090,919
State Aid - Transportation	596,809	-	596,809
State Aid - School Construction	1,291,498	-	1,291,498
Other State and Federal Grants	110,863	1,540,402	1,651,265
MTRS Pension Payments	5,756,861	-	5,756,861
Charges for Services	36,577	1,963,055	1,999,632
Departmental	-	6,078	6,078
Contributions and Donations	-	95,806	95,806
Investment Income	51,529	184	51,713
Miscellaneous	16,004	-	16,004
Total Revenues	<u>39,970,637</u>	<u>4,111,526</u>	<u>44,082,163</u>
<u>Expenditures:</u>			
Instruction:			
Middle School	6,179,928	672	6,180,600
High School	11,709,214	203,890	11,913,104
Special Education	3,516,715	1,266,177	4,782,892
Other	629,368	28,331	657,699
Support Services:			
Administration	378,893	5,615	384,508
Business	7,605,630	60,852	7,666,482
Buildings and Grounds	1,925,504	465,620	2,391,124
Food Services	-	823,960	823,960
MTRS Pension Payments	5,756,861	-	5,756,861
Student Activity Funds	-	348,616	348,616
Debt Service	2,374,015	-	2,374,015
Total Expenditures	<u>40,076,128</u>	<u>3,203,733</u>	<u>43,279,861</u>
Excess of Revenues Over (Under) Expenditures	<u>(105,491)</u>	<u>907,793</u>	<u>802,302</u>
Other Financing Sources (Uses):			
Transfers In	749,705	357,240	1,106,945
Transfers (Out)	<u>(372,240)</u>	<u>(784,705)</u>	<u>(1,156,945)</u>
Total Other Financing Sources (Uses)	<u>377,465</u>	<u>(427,465)</u>	<u>(50,000)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>271,974</u>	<u>480,328</u>	<u>752,302</u>
Fund Balance, Beginning	<u>2,316,844</u>	<u>2,531,108</u>	<u>4,847,952</u>
Fund Balance, Ending	<u>\$ 2,588,818</u>	<u>\$ 3,011,436</u>	<u>\$ 5,600,254</u>

Masconomet Regional School District
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Position
 June 30, 2018

Total Governmental Fund Balances	\$ 5,600,254
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	27,527,298
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	5,855,063
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.	25,000
In the Statement of Activities, interest is accrued on outstanding long term debt. In the fund financial statements, interest is not reported until due.	(93,173)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Compensated Absences Payable	(51,035)
Bonds Payable	(7,715,000)
Other Post Employment Benefits Payable	(76,427,043)
Net Pension Liabilities	(6,421,804)
Deferred outflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Other Post Employment Benefits Payable	2,009,629
Net Pension Liabilities	527,249
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Other Post Employment Benefits Payable	(107,538)
Net Pension Liabilities	(689,702)
Net Position of Governmental Activities	\$ (49,960,802)

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, 2018

Net Change in Fund Balances - Total Governmental Funds	\$ 752,302
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.	(1,240,011)
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.	(1,001,727)
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.	1,971,242
This item represents the current year OPEB cost. Since it is a long term liability, it is not reported in the governmental funds.	(4,525,429)
This item represents the current year Pension cost. Since it is a long term liability, it is not reported in the governmental funds.	(54,880)
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>41,519</u>
Change in Net Position of Governmental Activities	<u><u>\$ (4,056,984)</u></u>

Masconomet Regional School District
Statement of Fiduciary Net Position
Fiduciary Funds - OPEB Trust
June 30, 2018

	<u>OPEB Trust</u>
Assets	
Cash	\$ 462,770
Total Assets	<u>462,770</u>
Liabilities	
Current:	
Other Liabilities	<u>-</u>
Total Liabilities	<u>-</u>
Net Position	
Other Post Employment Benefits Trust	<u>462,770</u>
Total Net Position	<u>\$ 462,770</u>

Masconomet Regional School District
Statement of Changes in Fiduciary Net Position
Fiduciary Funds - OPEB Trust
Fiscal Year Ended June 30, 2018

	<u>OPEB Trust</u>
Additions:	
Interest and Dividends	\$ 6,472
Contributions - Employer	<u>1,260,119</u>
Total Additions	<u>1,266,591</u>
Deductions:	
Other Post Employment Benefits	<u>1,210,119</u>
Change in Net Position	<u>56,472</u>
Net Position:	
Beginning of the Year	<u>406,298</u>
End of the Year	<u><u>\$ 462,770</u></u>

Masconomet Regional School District
Notes to the Financial Statements
June 30, 2018

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, 2018, 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, 2018,

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 59 and 60),

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 59 and 60),

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

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

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

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

Details of Fund Balance Classifications

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

<u>Fund</u>	<u>Account</u>	<u>General Fund</u>	<u>Non Major Funds</u>
Fund Balances:			
Restricted for:			
202	Book Store	\$ -	\$ 5,630
203	College Prep	-	11,407
205	Community School Program	-	12,198
217	Circuit Breaker	-	1,098,082
218	Athletic & Co-curricular	-	90,590
219	Non Resident Tuition - SPED	-	165,147

<u>Fund</u>	<u>Account</u>	<u>General Fund</u>	<u>Non Major Funds</u>
Fund Balances:			
Restricted for:			
220	School Lunch	-	262,946
221	Use of School Property	-	12,075
222	Non Resident Tuition - International	-	53,914
225	Summer School	-	53,409
226	SPED Summer Program	-	9,591
258	TTEF/MEF Gift Fund	-	67,314
262	Cultural Council HS	-	84
263	Fidelity Gift Fund	-	750
265	Joe Carroll Gift Fund	-	1,145
266	Gifts & Donations	-	47,254
267	Music Dept Gift Fund	-	5,852
283	Title I Carryover (Fund 305)	-	2
290	SPED IDEA - (DOE 240)	-	(2,304)
301	Capital Proj - Irrigation System	-	18,895
302	Capital Project - Waste Water Tmt Plant	-	34,548
309	Capital Project - Technology	-	6,694
312	Capital Project - Tech Infrastructure	-	32,250
319	Capital Project - FY18 Safety & Security	-	444,676
321	Capital Project - HVAC & Generator	-	17,602
322	Capital Project - FY19 Preservation & Safety	-	230,000
323	Cap Proj - House A&C Renovations	-	14,840
702	Mitigation Trust Fund	-	105,604
801	Student Activity MS	-	75,229
802	Student Activity HS	-	130,963
	Total Restricted	-	3,006,387
Committed to:			
211	MS Obligations/Lost Book	-	4,408
212	HS Obligations/Lost Book	-	34,350
245	Accounting Software	-	7,628
246	Professional Negotiator	-	28,179
247	Mandated Compliance	-	1,350
	Total Committed	-	75,915
Assigned to:			
	Reserved for Subsequent Year Expenditures	71,591	-
Unassigned		2,517,227	(70,866)
Total Fund Balances		\$ 2,588,818	\$ 3,011,436

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 \$1,129,658. 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 75 OPEB (Other Post-Employment Benefits) liability of \$76,427,043, is required to be recorded in the Statement of Net Position. In addition, the GASB 68 Net Pension Liability of \$6,421,804, is recorded in the financial statements as of June 30, 2018.

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, 2018:

	<u>Revenues</u>
As Reported Budget Basis	\$ 34,199,036
Adjustments:	
Other Revenues Not Reported on Budget Basis (Stabilization Fund)	14,740
MTRS - Pension Payments	<u>5,756,861</u>
As Reported GAAP Statement	<u><u>\$ 39,970,637</u></u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 34,319,267
Adjustments:	
MTRS - Pension Payments	<u>5,756,861</u>
As Reported GAAP Statement	<u><u>\$ 40,076,128</u></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, 2018, none (\$0) of the District's bank balance of \$1,658,109 was exposed to credit risk.

Investments

The Districts investments are included in two accounts; MMDT in the amount of \$3,041,268 and the TD Bank investment sweep account of \$3,557,392. The TD Account(s) are covered by a LOC held by a third party. This LOC covers \$6,000,000 above FDIC insurance coverage.

Interest Rate Risk - Investments

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

Custodial Credit Risk - Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a policy for custodial credit risk of investments. As of June 30, 2018, 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, 2018, that are subject to reporting using the fair value hierarchy.

B. Capital Assets

Capital asset activity for the year ended June 30, 2018 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	7,139,012	-	(10,348)	7,128,664
Vehicles	116,517	-	-	116,517
Total Capital Assets Being Depreciated	<u>54,191,391</u>	<u>-</u>	<u>(10,348)</u>	<u>54,181,043</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(18,457,891)	(1,177,409)	-	(19,635,300)
Furniture, Fixtures and Equipment	(6,952,013)	(56,999)	10,348	(6,998,664)
Vehicles	(101,128)	(5,603)	-	(106,731)
Total Accumulated Depreciation	<u>(25,511,032)</u>	<u>(1,240,011)</u>	<u>10,348</u>	<u>(26,740,695)</u>
Total Capital Assets Being Depreciated, Net	<u>28,680,359</u>	<u>(1,240,011)</u>	<u>-</u>	<u>27,440,348</u>
Governmental Activities Capital Assets, Net	<u>\$ 28,767,309</u>	<u>\$ (1,240,011)</u>	<u>\$ -</u>	<u>\$ 27,527,298</u>

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

Instruction:	
Middle School	\$ 16,948
High School	28,041
Special Education	2,485
Support Services:	
Administration	2,084
Buildings and Grounds	1,190,453
	<u>\$ 1,240,011</u>

C. Accounts Receivable

Intergovernmental:

Due from Commonwealth of Massachusetts:

Current:

State Grant and Other	\$ 375,841
School Building Assistance Bureau Grant	1,048,070
Total Current	<u>\$1,423,911</u>

Noncurrent:

School Building Assistance Bureau Grant	<u>4,774,622</u>
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Total Intergovernmental \$6,198,533

The District was approved for a construction assistance program administered by the Massachusetts School Building Authority (MSBA). The MSBA will reimburse the District for a percentage of the principal and interest costs related to the school building project. The District received \$1,291,498 in the current fiscal year – all of which was recognized as revenue in the fund financial statements which utilize the modified accrual basis of accounting. Only the amount related to debt interest was recognized in the entity wide financial statements since the amount related to the construction costs had been accrued in prior fiscal years. The District will receive \$7,899,817 over the life of the related bond. The projected reimbursements for future interest costs are \$629,338. 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, 2018 bear interest at various rates.

Changes in Long Term Debt - the following is a summary of bond transactions for the year ended June 30, 2018.

<u>Project</u>	<u>Issue Date</u>	<u>Rate</u>	<u>Outstanding June 30, 2017</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding June 30, 2018</u>
School Construction	April 1, 2002	4.37% - 5.10%	\$ 3,430,000	\$ -	\$ (625,000)	\$ 2,805,000
School Construction	September 15, 2003	3.50% - 5.00%	4,065,000	-	(605,000)	3,460,000
School Construction - Refunding Issue	July 15, 2009	3.00% - 5.00%	2,140,000	-	(690,000)	1,450,000
Total Outstanding			<u>\$ 9,635,000</u>	<u>\$ -</u>	<u>\$ (1,920,000)</u>	<u>\$ 7,715,000</u>

Summary of Debt Service Requirements to Maturity

	<u>General Long Term Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$2,000,000	\$374,065	\$2,374,065
2020	2,085,000	283,200	2,368,200
2021	1,405,000	182,250	1,587,250
2022	1,470,000	112,000	1,582,000
2023	755,000	37,750	792,750
	<u>\$7,715,000</u>	<u>\$989,265</u>	<u>\$8,704,265</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>
2019	\$865,012	\$777,175
2020	871,612	777,000
Total	<u>\$1,736,624</u>	<u>\$1,554,175</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, 2018 is \$37,500.

(iii) Changes in the government's long-term liabilities for the year ended June 30, 2018 are as follows:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance July 1, 2018</u>	<u>Current Portion</u>
Compensated Absences Payable \$	71,621	\$ 14,324	(34,910)	\$ 51,035	\$ -
Bonds Payable	9,635,000	-	(1,920,000)	7,715,000	2,000,000
Leasing Payable	63,742	-	(63,742)	-	-
Net Pension Liability	6,719,969	534,343	(832,508)	6,421,804	-
Other Post Employment Benefits Payable	69,999,524	6,535,057	(107,538)	76,427,043	-
Total Governmental Activities	<u>\$ 86,489,856</u>	<u>\$ 7,083,724</u>	<u>\$ (2,958,698)</u>	<u>\$ 90,614,882</u>	<u>\$ 2,000,000</u>

E. Compensated Absences and Interfund Transfers

i. Interfund Transfers

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

	<u>Transfers In</u>	<u>Transfers (Out)</u>	<u>Total</u>
General	\$ 749,705	\$ (372,240)	\$ 377,465
Non-Major Governmental	357,240	(784,705)	(427,465)
Total	<u>\$ 1,106,945</u>	<u>\$ (1,156,945)</u>	<u>\$ (50,000)</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 https://www.essexregional.com/sites/essexregionalretirement/files/uploads/essex_regional_retirement_system_financial_statements_12-31-2017.pdf or by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025.

Benefits Provided

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

Retirement Benefits

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

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

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

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

<u>Benefit %</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
	<u>Hired after April 1 2012</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, 2018 was 21.59% 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 \$531,385 for the year ending June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$6,421,804 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. 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 June 30, 2018, the District's *proportion (or portion)* was 1.706000%.

For the year ended June 30, 2018, the District recognized pension expense of \$586,261. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 90,881
Change in assumptions	527,249	-
Net differences between projected and actual earnings on pension plan investments	-	282,739
Changes in proportion and differences between contributions and proportionate share of contributions	-	316,082
Contributions subsequent to the measurement date	-	-
	\$ 527,249	\$ 689,702

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
2019	(\$8,794)
2020	(2,545)
2021	(77,886)
2022	<u>(\$73,228)</u>
Total	<u><u>(\$162,453)</u></u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement that was updated to June 30, 2018.

Valuation date	January 1, 2018
Actuarial Cost Method	Entry age normal cost method
Salary Increases	Based on years of service, ranging from 7.5% at 0 years of service decreasing to 3.5% after five years of service
Amortization Method	Level payments on the 2002 and 2003 Early Retirement Incentive (ERI); total appropriation increase 7.41% through fiscal year 2022, 6.36% for fiscal year 2023 and 4.0% thereafter
Remaining Amortization Period	As of July 1, 2016, 3 years remaining for the 2002 ERI liability; 4 years remaining for the 2003 ERI liability and 19 years for the remaining unfunded liability.
Asset Valuation Method	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period. Asset value is adjusted, as necessary, to be within 10% of market value.
Investment Rate of Return/Discount Rate	7.5% net of pension plan investment expense, including inflation (7.75% in previous valuation)
Inflation Rate	2.75% (3.5% in previous valuation)
Cost of Living Adjustments	3.00% of first \$14,000
Rates of Retirement	Varies based upon age for general employees, police and fire employees.
Mortality Rates were based on the tables noted below:	
Healthy:	
Pre-Retirement	RP-2000 Employee Mortality Table projected generationally with Scale BB (previously, RP- Employee Mortality Table projected generationally from 2009 with Scale BB2D)
Healthy Retiree	RP-2000 Health Annuitant Mortality Table projected generationally with Scale BB (previously, RP- Healthy Annuitant Mortality Table projected generationally from 2009 with scale BB2D)
Disabled	RP-2000 Healthy Annuitant Mortality Table, set forward two years projected generationally with Scale BB (previously Healthy Annuitant Mortality Table projected generationally from 2015 using Scale BB2D)

Changes in Actuarial Assumptions and Plan Provisions

Effective January 1, 2018 the following changes were made:

Actuarial Assumptions

- The net investment return assumption and discount rate were lowered from 7.75% to 7.50%.
- The inflation rate was lowered from 4.00% to 2.75%.
- The assumed interest on employee contributions was increased from 2.0% to 3.75%.
- The administrative expense assumption was lowered from \$1,127,500 to \$1,000,000.
- The retirement rates for employees in Groups 1 and 2 hired after April 1, 2012 and in Group 4 were revised to match the rates for employees hired before April 1, 2012 and there were minor changes to the rates prior to age 54 for Group 4 employees. The percentage of accidental disability retirees who are expected to die from the same cause as the disability was lowered from 40% to 20% for groups 1 and 2 employees and increased from 40% to 60% for Group 4 employees.
- The allowance for net 3(8)(c) payments was changed from an estimated liability to a term cost added to the service cost.

Plan Provisions

There were not any changes in the plan provisions.

Investment Policy

The pension plan's policy in regard to the allocation of invested assets is established by PRIT and the Board. Plan assets are managed on a total return basis with a long-term objective of achieving a fully funded status for the benefits provided through the pension plan.

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. 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 mortality tables listed in the assumption table 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>
Global Equities:		
Domestic Equity	17.50%	6.50%
International Developed Markets Equity	15.50%	7.11%
International Emerging Markets Equity	6.00%	9.41%
Core Fixed Income:	12.00%	1.68%
High-Yield Fixed Income	10.00%	4.13%
Real Estate	10.00%	4.90%
Commodities	4.00%	4.71%
Hedge Fund, GTAA, Risk Parity	13.00%	3.94%
Private Equity	12.00%	10.28%
	<u>100.00%</u>	

Rate of Return

The annual money-weighted rate of return on pension plan investments for December 31, 2017 (net of investment expenses) was 17.11%. (7.8% for December 31, 2016). The money-weighted rate of return expresses investment performance, net of pension plan investment expense, is adjusted for the changing amounts actually invested, measured monthly.

Discount Rate

The discount rate used to measure the total pension liability was 7.5% (7.75% in the previous valuation). The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that the Essex Regional Retirement System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability of the Essex Regional Retirement System, calculated using the discount rate of 7.5%, as well as what the Essex Regional Retirement System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the Net Pension Liability	\$8,079,410	\$6,421,804	\$5,027,526

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 https://www.essexregional.com/sites/essexregionalretirement/files/uploads/essex_regional_retirement_system_financial_statements_12-31-2017.pdf

A. Massachusetts Teachers Retirement System

Special Funding Situation

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

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

For the fiscal year ended June 30, 2018, the District's proportionate share of the collective pension expense was \$5,756,861. 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, 2018, or fund balance/net position at June 30, 2018.

The Commonwealth's proportionate share of net pension liability associated with the District is \$55,156,659. 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: <https://mtrs.state.ma.us/wp-content/uploads/2018/04/MTRS-Final-GASB-68-Report.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, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. This valuation used the following assumptions:

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

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund’s target asset allocation as of June 30, 2016 are summarized in the following table:

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Global Equity	40.00%	5.00%
Portfolio Completion Strategies	13.00%	3.60%
Core fixed income	12.00%	1.10%
Private Equity	11.00%	6.60%
Value Added Fixed Income	10.00%	3.80%
Real estate	10.00%	3.60%
Timber/Natural Resources	4.00%	3.20%
Hedge Funds	0.00%	3.60%
	<u>100%</u>	

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: <https://mtrs.state.ma.us/wp-content/uploads/2018/04/MTRS-Final-GASB-68-Report.pdf>

B. Other Post Employment Benefits (OPEB) Disclosures

The Governmental Accounting Standards Board (GASB) issued Statement #74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (which became effective for the June 30, 2017 reporting period) and Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (effective for the June 30, 2018 reporting period). GASB Statements #74 and #75 relate to reporting requirements of the District’s OPEB Trust fund and the District’s OPEB liability. The net other post-employment benefits **liability** reported in the District’s statement of net position under the new standards differs from the net other post-employment benefits **obligation** amount previously reported (in accordance with the prior standards guided by GASB Statement #45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under GASB Statement #45, the reporting of the District’s net other post-employment benefits liability was “phased in” over a thirty-year period. The new standards eliminate the thirty-year phase in period and require reporting the entire other post-employment benefits liability.

Summary of Significant Accounting Policies (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District’s Plan and additions to/deductions from Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

General Information About the Plan

Plan Description.

Plan Administration: The District administers all activity related to the other post-employment benefits plan - a single employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all eligible employees of the District. The District's School Committee has the authority to establish and amend benefit terms.

Plan Membership: At June 30, 2018, the plans membership consisted of the following:

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

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

Contributions. Retirees and their spouses pay 27.5% of the cost of medical premiums and 30% of the dental premiums. In addition, the retirees and their spouses pay 23% of the premiums for a \$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.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Total OPEB Liability	\$76,889,072
Plan Fiduciary Net Position	<u>(462,029)</u>
Net OPEB Liability	<u>\$76,427,043</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.60%

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00%
Salary Increases	3.00%
Investment Rate of Return	3.13%
Health Cost Trend Rates	8.0% decreased to 5% ultimately
Retirement Age	Rates from 20 years and age 55 and 10 years
Mortality	RP-2014 mortality table with MP-2014 projection

Investments

Investment Policy: The plan’s policy in regard to the allocation of invested assets is approved and may be amended by the District. The policy pursues an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the adopted asset allocation policy as of June 30, 2018.

Changes in Assumption:

The actuarial cost method was changed from projected unit credit method to the entry age normal method. In addition, the investment rate of return was changed from 2.98% to 3.13%.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations and best estimates of arithmetic real rates of return for each major asset class summarized in the target asset allocation as of June 30, 2018, are summarized in the table below:

	<u>Target Allocation</u>	<u>Long Term Expected Rate of Return</u>
Domestic Equity	0.00%	N/A
Fixed Income	100.00%	1.00%
Private Equity	0.00%	N/A
Real Estate	0.00%	N/A
Cash	0.00%	N/A
	<u>100.00%</u>	

Concentrations

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

Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 1.30%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate: The discount rate used to measure the total OPEB liability was 2.98% (3.13% in the prior valuation). The projection of cash flows used to determine the discount rate assumed that District contributions will not be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Therefore a blended long-term expected rate of return on OPEB plan investments was applied to determine the total OPEB liability.

Changes in Net OPEB Liability

	Increase (Decrease)		
	Plan		
	Total OPEB <u>Liability</u>	Fiduciary <u>Net Position</u>	Net OPEB <u>Liability</u>
Balances on 7/1/2017	\$70,405,821	\$406,298	\$69,999,523
Changes for the Year:			
Service Cost	3,613,500	-	3,613,500
Interest	2,184,764	-	2,184,764
Differences Between Expected and Actual Experience	1,895,106	-	1,895,106
Contributions - Employer	-	1,260,119	(1,260,119)
Net Investment Income	-	5,731	(5,731)
Benefit Payments	(1,210,119)	(1,210,119)	-
Administrative Expense	-	-	-
Net Changes	6,483,251	55,731	6,427,520
Balances on 6/30/2018	<u>\$76,889,072</u>	<u>\$462,029</u>	<u>\$76,427,043</u>

Sensitivity of the net OPEB liability to changes in the discount rate: The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.98 percent) or 1-percentage-point higher (3.98 percent) than the current discount rate:

	1% Decrease <u>1.98%</u>	Discount Rate <u>2.98%</u>	1% Increase <u>3.98%</u>
Net OPEB Liability (asset)	\$89,778,002	\$76,427,043	\$63,076,083

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

	1% Decrease (7.0% decreasing to 4.0%)	Healthcare Trend Rates (8.0% decreasing to 5.0%)	1% Increase (9.0% decreasing to 6.0%)
Net OPEB Liability (asset)	\$61,356,728	\$76,427,043	\$94,898,903

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$5,785,547. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 107,538
Change in assumptions	2,002,644	-
Net differences between projected and actual earnings of OPEB plan investments	6,985	-
Contributions subsequent to the measurement date	-	-
	<u>\$ 2,009,629</u>	<u>\$ 107,538</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	Amount
2019	\$ 173,680
2020	173,680
2021	173,680
2022	173,680
2023	173,680
Thereafter	1,033,691
Total	<u>\$ 1,902,091</u>

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the accompanying financial statements.

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	\$873,103
High School	1,654,284
Special Education	496,843
Other	94,109
Support Services:	
Administration	53,797
Business	1,081,255
Buildings and Grounds	272,036
Total	<u>\$4,525,427</u>

C. Subsequent Year Authorization

The School Committee adopted a fiscal year 2019 budget totaling \$35,731,811. The accompanying financial statements do not reflect the adoption of the fiscal year 2019 budget. The budgetary amounts will be financed by the following sources:

Member Assessments	\$ 27,991,223
State and Federal Aid	7,012,310
Local Receipts	83,000
Excess and Deficiency	
Fund Transfers	645,278
Total	<u>\$ 35,731,811</u>

D. Prior Period Adjustment

Governmental Accounting Standards Board Statement #45 (*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*) required reporting the net Other Post Employment Benefits (OPEB) liability over a thirty year phase in period. Beginning in fiscal year 2018, the implementation of Governmental Accounting Standards Board Statement #75 (*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*) eliminated the phase in period and the entire net Other Post Employment Benefits (OPEB) liability must be reported. As a result, a prior period adjustment was required to reflect the entire net OPEB liability at the beginning of the fiscal year. The net position prior to the adjustment, the prior period adjustment and the net position after the prior period adjustment are as follows:

	Governmental
	<u>Activities</u>
Net Position Prior to Adjustment	\$ (11,954,295)
Prior Period Adjustment	<u>(33,949,523)</u>
Net Position After the Adjustment	<u>\$ (45,903,818)</u>

E. Implementation of New GASB Pronouncements

During fiscal year 2018, the following GASB pronouncements were implemented:

- The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in reporting periods beginning after June 15, 2017. The implementation of this standard required reporting the entire net OPEB liability in the financial statements. In addition, the standard required significant note disclosures and additional required supplementary information.
- The GASB issued Statement No 81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in reporting periods beginning after December 15, 2016. The implementation of this pronouncement did not impact the financial statements.
- 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. This Statement amends Statements 67 and 68 to require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. The statement was implemented.
- The GASB issued Statement No. 85, *Omnibus 2017* which is required to be implemented in reporting periods beginning after June 15, 2017. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* which is required to be implemented in reporting periods beginning after June 15, 2017. 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. 83, *Certain Asset Retirement Obligations* which is required to be implemented for reporting periods beginning after June 15, 2018.
- The GASB issued Statement No. 84, *Fiduciary Activities* which is required to be implemented in reporting periods beginning after December 15, 2018.
- The GASB issued Statement No. 87, *Leases* which is required to be implemented in reporting periods beginning after December 15, 2019.
- The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* which is required to be implemented in reporting periods beginning after June 15, 2018.
- The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* which is required to be implemented in reporting periods beginning after December 15, 2019.
- The GASB issued Statement No. 90 *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61* which is required to be implemented in reporting periods beginning after December 15, 2018.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements.

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, 2018

	<u>Budgeted Amounts</u>		Actual Budget Basis <u>Amounts</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Assessments to Member Towns - Operating	\$ 25,937,062	\$ 25,937,062	\$ 25,937,062	\$ -
Assessments to Member Towns - Capital and Debt	1,112,267	1,082,517	1,082,515	(2)
Intergovernmental				
State Aid - Education	5,072,099	5,072,099	5,090,919	18,820
State Aid - Transportation	574,809	574,809	596,809	22,000
State Aid - School Construction	1,291,498	1,291,498	1,291,498	-
Other State and Federal Aid	35,000	35,000	110,863	75,863
Departmental	46,000	46,000	36,577	(9,423)
Investment Income	7,500	7,500	36,789	29,289
Miscellaneous	20,000	20,000	16,004	(3,996)
Total Revenues	<u>34,096,235</u>	<u>34,066,485</u>	<u>34,199,036</u>	<u>132,551</u>
<u>Expenditures</u>				
Instruction:				
Middle School	6,153,727	6,150,167	6,179,928	(29,761)
High School	12,025,193	12,023,313	11,709,214	314,099
Special Education	3,508,861	3,512,624	3,516,715	(4,091)
Other	665,595	667,767	629,368	38,399
Support Services:				
Administration	352,721	352,476	378,893	(26,417)
Business	7,775,324	7,775,324	7,605,630	169,694
Buildings and Grounds	1,945,219	1,945,219	1,925,504	19,715
Debt Service	2,374,015	2,374,015	2,374,015	-
Total Expenditures	<u>34,800,655</u>	<u>34,800,905</u>	<u>34,319,267</u>	<u>481,638</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(704,420)</u>	<u>(734,420)</u>	<u>(120,231)</u>	<u>614,189</u>
<u>Other Financing Sources (Uses):</u>				
Excess and Deficiency	-	780,000	780,000	-
Operating Transfers In	704,420	704,420	730,421	26,001
Operating Transfers Out	-	(750,000)	(750,000)	-
Total Other Financing Sources (Uses)	<u>704,420</u>	<u>734,420</u>	<u>760,421</u>	<u>26,001</u>
Excess (Deficiency) of Revenues and Other Financing Sources (Uses) Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 640,190</u>	<u>\$ 640,190</u>

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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportionate share of net pension liability (asset) (%)	1.706000%	1.744000%	1.821000%	1.825243%
District's proportionate share of net pension liability (asset) (\$)	6,421,804	6,719,969	6,617,673	6,171,240
District's covered-employee payroll	2,460,943	2,538,981	2,349,100	2,185,432
District's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	260.95%	264.67%	281.71%	282.38%
Plan fiduciary net position as a percentage of the pension liability	55.40%	51.12%	51.01%	50.42%

*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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 531,381	\$ 505,357	\$ 500,382	\$ 469,570	\$ 433,821	\$ 382,468	\$ 340,619	\$ 298,631	\$ 291,418	\$ 272,654
Contributions in relation to the contractually required contribution	<u>(531,381)</u>	<u>(505,357)</u>	<u>(500,382)</u>	<u>(469,570)</u>	<u>(433,821)</u>	<u>(382,468)</u>	<u>(340,619)</u>	<u>(298,631)</u>	<u>(291,418)</u>	<u>(272,654)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>					
District's covered-employee payroll	2,460,943	2,538,981	2,349,100	2,249,066	2,185,432	<i>This Schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</i>				
Contributions as a percentage of covered-employee payroll	21.59%	19.90%	21.30%	20.88%	19.85%					

See Notes to the Required Supplementary Information

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
District's proportionate share of the collective net pension liability (asset) (%)	0.00%	0.00%	0.00%	0.00%	<i>This Schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</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>\$ 55,156,659</u>	<u>\$ 54,124,167</u>	<u>\$ 48,433,340</u>	<u>\$ 37,657,633</u>						
Total	<u>\$ 55,156,659</u>	<u>\$ 54,124,167</u>	<u>\$ 48,433,340</u>	<u>\$ 37,657,633</u>						
District's covered-employee payroll	16,365,911	15,923,187	15,016,509	14,525,203						
District's proportionate share of the collective net pension liability (asset) as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%	0.00%						
Plan fiduciary net position as a percentage of the pension liability	54.25%	52.73%	55.38%	61.64%						
District's expense and revenue recognized for Commonwealth support	<u>\$ 5,756,861</u>	<u>\$ 5,521,020</u>	<u>\$ 3,928,375</u>	<u>\$ 2,616,256</u>						

See Notes to the Required Supplementary Information

Masconomet Regional School District
Required Supplementary Information
Schedule of Changes In the Net OPEB Liability and Related Ratios
June 30, 2018
Last 10 Fiscal Year

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total OPEB liability										
Service cost	\$ 3,613,500	\$ 2,370,000	<i>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</i>							
Interest	2,184,764	1,900,000								
Changes of benefit terms	-	-								
Difference between expected and actual experience	1,895,106	-								
Changes in assumptions (see below*)	-	25,085,821								
Benefit payments	(1,210,119)	(1,160,000)								
Net change in total OPEB liability	6,483,251	28,195,821								
Total OPEB liability - beginning	70,405,821	42,210,000								
Total OPEB liability - ending (a)	<u>\$ 76,889,072</u>	<u>\$ 70,405,821</u>								
Plan Fiduciary net position										
Contributions - employer	\$ 1,260,119	\$ 1,160,000								
Net investment income	5,731	2,840								
Benefit payments	(1,210,119)	(1,160,000)								
Administrative expense	-	-								
Net change in plan fiduciary net position	55,731	2,840								
Plan fiduciary net position - beginning	406,298	403,458								
Plan fiduciary net position - ending (b)	<u>\$ 462,029</u>	<u>\$ 406,298</u>								
District's net OPEB liability - ending (a) - (b)	<u>\$ 76,427,043</u>	<u>\$ 69,999,523</u>								
Plan fiduciary net position as a percentage of the total OPEB liability	0.60%	0.58%								
Covered-employee payroll	\$ 20,235,375	\$ 19,840,000								
District's net OPEB liability as a percentage of covered - employee payroll	377.69%	352.82%								
Notes to Schedule:										
<i>Benefit changes</i>	None									
<i>Changes in assumption</i>	* Changed to 3.13% from 2.98% - Discount rate and change in method - GASB 45- PUC (Projected Unit Cost) to GASB 74/75 EAN - (Entry Age Normal)									

See Notes to the Required Supplementary Information

Masconomet Regional School District
 Required Supplementary Information
 Schedule of Contributions - Other Post Employment Benefits
 June 30, 2018
 Last 10 Fiscal Year

		2018		2017		2016		2015		2014		2013		2012		2011		2010		2009
Actuarial determined contribution	\$	5,785,547	\$	5,040,000	<i>This schedule is intended to show information for 10 years. Additional years' information will be displayed as it becomes available.</i>															
Contributions in relating to the actuarially determined contribution		1,260,119		1,160,000																
Contribution deficiency (excess)	\$	4,525,428	\$	3,880,000																
Covered-employee payroll	\$	20,235,375	\$	19,840,000																
Contributions as a percentage of covered-employee payroll		6.23%		5.85%																

Notes to Schedule

Valuation date:	7/1/2017 (Census 6/30/2018)
Actuarial cost method	Entry Age Normal
Asset valuation method	Market Value
Inflation	3.00%
Healthcare cost trend rates	8.0% decreased to 5% ultimately
Salary increases	3.00%
Investment rate of return	3.13% beginning of the year; 2.98% end of the year
Retirement age	rates from 20 years and 55 & 10 years
Mortality	RP-2014 mortality table with MP-2016 projection

See Notes to the Required Supplementary Information

Required Supplementary Information
Schedule of Investment Returns - Other Post Employment Benefits
June 30, 2018
Last 10 Fiscal Year

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
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Annual money-weighted rate of return,
net of investment expense

1.30% 0.70%

This schedule is intended to show information for 10 years. Additional years information will be displayed as it becomes available.

See Notes to the Required Supplementary Information

Masconomet Regional School District
Notes to the Required Supplementary Information
June 30, 2018

I. Budgetary Information

i. General Budget Policies

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

ii. Budget Basis of Accounting

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

The following reconciliation summarizes the differences between the budget and GAAP basis principles for the year ended June 30, 2018:

	<u>Revenues</u>
As Reported Budget Basis	\$ 34,199,036
Adjustments:	
Other Revenues Not Reported on Budget Basis (Stabilization Fund)	14,740
MTRS - Pension Payments	5,756,861
As Reported GAAP Statement	\$ 39,970,637
	<u>Expenditures</u>
As Reported Budget Basis	\$ 34,319,267
Adjustments:	
MTRS - Pension Payments	5,756,861
As Reported GAAP Statement	\$ 40,076,128

II. Pension Plans

i. Plan Description

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

The District is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Essex Regional Retirement System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by writing to the Essex Regional Retirement System, 491 Maple Street, Suite 202, Danvers, Massachusetts 01923-4025.

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

ii. Funding Plan

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

iii. Changes in Benefit Terms

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

iv. Change in Assumptions

The following assumption changes were reflected in the January 1, 2018 actuarial valuation:

- The mortality tables for healthy participants were changed from the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale BB2D from 2009 to the RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Tables projected generationally using Scale MP-2017.
- The mortality tables for disabled participants were changed from the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale BB2D from 2015 to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward 1 year projected generationally using Scale MP-2017.
- The long-term salary increase assumption was lowered by 0.25%, to 4.00% for Group 1 participants, 4.25% for Group 2 participants, and 4.50% for Group 4 participants.
- The investment rate of return assumption was reduced from 7.75% to 7.50%. The inflation rate was reduced to 3.25% from the previous rate of 3.50%.

Changes in Plan Provisions

There were not any changes in the Plan provisions.

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

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

vi. Schedule of the District's Contributions

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

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

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

III. Other Postemployment Benefits (OPEB) Disclosures

The Governmental Accounting Standards Board (GASB) issued Statement #74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (which became effective for the June 30, 2017 reporting period) and Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (effective for the June 30, 2018 reporting period). GASB Statements #74 and #75 relate to reporting requirements of the District's OPEB Trust fund and the District's OPEB liability. The net other post-employment benefits **liability** reported in the District's statement of net position under the new standards differs from the net other post-employment benefits **obligation** amount previously reported (in accordance with the prior standards guided by GASB Statement #45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under GASB Statement #45, the reporting of the District's net other post-employment benefits liability was "phased in" over a thirty-year period. The new standards eliminate the thirty-year phase in period and require reporting the entire other post-employment benefits liability.

Plan Description

Plan Administration: The District administers all activity related to the other post-employment benefits plan - a single employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all eligible employees of the District. Management of the plan is vested in the School Committee and the District's Treasurer. The District's School Committee has the authority to establish and amend benefit terms.

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

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

iii. Schedule of Net OPEB Liability and Related Ratios

The schedule provides information about the changes in the OPEB liability and the changes in the fiduciary net position of the plan. The schedule, also, provides the plan fiduciary net position as a percentage of the total OPEB liability, the covered employee payroll and the District's net OPEB liability as a percentage of covered employee payroll.

iv. The Schedule of Contributions - Other Post Employment Benefits

The schedule details the District's actuarially 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.

v. The Schedule of Investment Rate of Returns - Other Post Employment Benefits

The schedule details the District's annual money weighted rate of return, net of investment expense.

Supplementary Information

Masconomet Regional School District
Schedule of Nonmajor Governmental Funds
Fiscal Year Ended June 30, 2018
(Continued)

<u>Fund</u>	<u>Account</u>	<u>Balance Beginning July 1, 2017</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfers In (Out)</u>	<u>Balance Ending June 30, 2018</u>	<u>GASB 54</u>
<u>Special Revenue Funds</u>							
<u>Revolving Funds</u>							
202	Book Store	\$ 12,254	\$ 15,355	\$ 21,979	\$ -	\$ 5,630	Restricted
203	College Prep	10,597	41,640	40,830	-	11,407	Restricted
205	Community School Program	12,198	-	-	-	12,198	Restricted
210	Restitution	11,436	54,289	136,591	-	(70,866)	Committed
211	MS Obligations/Lost Book	4,371	708	671	-	4,408	Committed
212	HS Obligations/Lost Book	32,313	5,370	3,333	-	34,350	Committed
217	Circuit Breaker	930,466	922,121	754,505	-	1,098,082	Restricted
218	Athletic & Co-curricular	112,963	584,282	5,655	(601,000)	90,590	Restricted
219	Non Resident Tuition - SPED	174,688	98,133	107,674	-	165,147	Restricted
220	School Lunch	291,855	854,051	823,960	(59,000)	262,946	Restricted
221	Use of School Property	14,891	70,806	14,480	(59,142)	12,075	Restricted
222	Non Resident Tuition - International	74,192	-	-	(20,278)	53,914	Restricted
225	Summer School	53,234	14,475	14,300	-	53,409	Restricted
226	SPED Summer Program	14,165	11,520	16,094.00	-	9,591	Restricted
245	Accounting Software	7,628	-	-	-	7,628	Committed
246	Professional Negotiator	28,179	-	-	-	28,179	Committed
247	Mandated Compliance	7,325	-	5,975	-	1,350	Committed
Total Revolving Funds		<u>1,792,755</u>	<u>2,672,750</u>	<u>1,946,047</u>	<u>(739,420)</u>	<u>1,780,038</u>	
<u>Gifts and Donations Funds</u>							
258	TTEF/MEF Gift Fund	5,471	70,029	8,186	-	67,314	Restricted
262	Cultural Council HS	84	-	-	-	84	Restricted
263	Fidelity Gift Fund	750	-	-	-	750	Restricted
265	Joe Carroll Gift Fund	5,866	1,000	5,721	-	1,145	Restricted
266	Gifts & Donations	31,092	20,277	4,115	-	47,254	Restricted
267	Music Dept Gift Fund	4,352	4,500	3,000	-	5,852	Restricted
Total Gifts and Donations Funds		<u>47,615</u>	<u>95,806</u>	<u>21,022</u>	<u>-</u>	<u>122,399</u>	
<u>Grants</u>							
268	Essential School Health Service Grant	26,001	3,000	3,000	(26,001)	-	Restricted
280	SPED IDEA -(DOE 240)	-	27,423	27,423	-	-	Restricted
281	Sped access - prog imp (274)	2,905	-	2,905	-	-	Restricted
283	Title I Carryover (Fund 305)	673	-	671	-	2	Restricted
290	SPED IDEA -(DOE 240)	-	420,004	422,308	-	(2,304)	Restricted
293	Title I Carryover (Fund 305)	-	42,744	42,744	-	-	Restricted
296	Title IIA Teacher Qual carry (DOE 140 165)	-	24,669	24,669	-	-	Restricted
298	Title IV Academic Enrichment (DOE 309)	-	1,288	1,288	-	-	Restricted
Total Grant Funds		<u>29,579</u>	<u>519,128</u>	<u>525,008</u>	<u>(26,001)</u>	<u>(2,302)</u>	

Masconomet Regional School District
Schedule of Nonmajor Governmental Funds
Fiscal Year Ended June 30, 2018
(Concluded)

<u>Fund</u>	<u>Account</u>	<u>Balance Beginning July 1, 2017</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Transfers In (Out)</u>	<u>Balance Ending June 30, 2018</u>	<u>GASB 54</u>
	<u>Student Activity Funds</u>						
801	Student Activity MS	55,680	73,080	53,531	-	75,229	Restricted
802	Student Activity HS	181,186	244,761	294,984	-	130,963	Restricted
	Total Student Activity Funds	<u>236,866</u>	<u>317,841</u>	<u>348,515</u>	<u>-</u>	<u>206,192</u>	
	<i>Total Special Revenue Funds</i>	<u>2,106,815</u>	<u>3,605,525</u>	<u>2,840,592</u>	<u>(765,421)</u>	<u>2,106,327</u>	
	<u>Capital Projects Funds</u>						
301	Capital Project - Irrigation System	18,946	-	51	-	18,895	Restricted
302	Capital Project - Waste Water Tmt Plant	34,548	-	-	-	34,548	Restricted
309	Capital Project - SIS/LMS	8,594	-	1,900	-	6,694	Restricted
312	Capital Project - Tech Infrastructure	32,250	-	-	-	32,250	Restricted
317	Capital Project - Painting	14,000	-	8,400	(5,600)	-	Restricted
318	Capital Project - Renovations	3,139	-	1,806	(1,333)	-	Restricted
319	Capital Project - FY18 Safety & Security	150,000	506,000	231,324	20,000	444,676	Restricted
320	Capital Project - Exterior Entryway	25,000	-	41,400	16,400	-	Restricted
321	Capital Project - HAVC & Generator	-	-	46,047	63,649	17,602	Restricted
322	Capital Project - Fy19 Preservation & Safety	-	-	-	230,000	230,000	Restricted
323	Capital Project - House A&C Renovations	-	-	-	14,840	14,840	Restricted
	<i>Total Capital Projects Funds</i>	<u>\$ 286,477</u>	<u>\$ 506,000</u>	<u>\$ 330,928</u>	<u>\$ 337,956</u>	<u>\$ 799,505</u>	
702	Mitigation Trust Fund	<u>\$ 137,814</u>	<u>\$ -</u>	<u>\$ 32,210</u>	<u>\$ -</u>	<u>\$ 105,604</u>	Restricted
	Total Nonmajor Funds	<u>\$2,531,106</u>	<u>\$ 4,111,525</u>	<u>\$ 3,203,730</u>	<u>\$ (427,465)</u>	<u>\$ 3,011,436</u>	
	<u>Summary of Fund Balances</u>						
	Restricted	\$2,439,853				\$ 3,006,387	
	Committed	91,253				75,915	
	Unassigned					(70,866)	
	Total	<u>\$2,531,106</u>				<u>\$ 3,011,436</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 \$462,770, which is shown on Pages 16 and 17.

250 In addition to the funds noted above, the District has a Stabilization Fund which has a balance of \$1,129,658, as of June 30, 2018. 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, 2018, and the related notes to the financial statements, which collectively comprise the Masconomet Regional School District's basic financial statements, and have issued our report thereon dated November 2, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
November 2, 2018