

***MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT***

***REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS***

***YEAR ENDED JUNE 30, 2016***

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

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## Independent Auditor's Report

To the Honorable School Committee  
Manchester Essex Regional School District  
Manchester-by-the-Sea, Massachusetts 01944

## 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 Manchester Essex Regional School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Manchester Essex Regional School 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 accounting 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 opinions.

## Opinions

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 Manchester Essex Regional School District, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2017, on our consideration of the Manchester Essex 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Manchester Essex Regional School District's internal control over financial reporting and compliance.



February 14, 2017

# ***Management's Discussion and Analysis***

## ***Management's Discussion and Analysis***

As management of the Manchester Essex Regional School District (District), we offer readers of these basic financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2016. The District complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB).

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

### ***Overview of the Basic Financial Statements***

This discussion and analysis are intended to serve as an introduction to the Manchester Essex Regional School District's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This approach focuses on both the District as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District as a whole. The fund financial statements focus on the individual parts of the District's operations, reporting the District's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the District's accountability. An additional part of the basic financial statements are the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all assets, liabilities, and deferred outflows/inflows, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to 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 periods (e.g., uncollected revenues and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by member town assessments and intergovernmental revenues (*governmental activities*). The governmental activities include administration, instructional services, other student services, operation and maintenance, fixed charges/employee benefits and programs with other school districts.

**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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds 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 statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the 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*.

The Manchester Essex Regional School District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**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 statement 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.

**Notes to the basic financial statements.** The notes provide additional information that is essential to 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 certain *required supplementary information* concerning the District's budgetary basis of accounting, pension and other postemployment benefits.

## **Government-wide Financial Analysis**

The District voted to establish an "other postemployment benefit trust fund" (OPEB) on October 15, 2013. The District contributed \$350,000 to the trust in 2016 to fund future health care costs. The balance in this fund at the close of 2016 was \$400,000.

Net position may serve over time as a useful indicator of a government's financial position. For the governmental activities, the Manchester Essex Regional School District's assets and deferred outflows of resources exceeded liabilities by \$4.5 million at the close of 2016.

Net position of \$20.3 million reflects its net investment in capital assets (e.g., buildings, vehicles, equipment and textbooks), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to pupils; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position of \$196,000 represents the unexpended balances of state and federal grants and gifts.

The remaining balance of unrestricted net position is reporting a deficit balance totaling \$16 million that is due to the recognition of a \$12.6 million OPEB liability and a \$6.5 million net pension liability.

The following table reflects the key elements of net position.

	<u>2016</u>	<u>2015</u>
<b>Assets:</b>		
Current assets.....	\$ 4,092,733	\$ 3,659,917
Capital assets.....	<u>42,253,608</u>	<u>43,373,866</u>
<b>Total assets.....</b>	<b><u>46,346,341</u></b>	<b><u>47,033,783</u></b>
<b>Deferred Outflows of Resources</b>		
Deferred outflows of resources related to pensions...	<u>370,371</u>	<u>-</u>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	775,934	1,181,792
Noncurrent liabilities (excluding debt).....	19,520,067	18,411,102
Current debt.....	1,608,214	1,481,062
Noncurrent debt.....	<u>20,343,312</u>	<u>22,116,526</u>
<b>Total liabilities.....</b>	<b><u>42,247,527</u></b>	<b><u>43,190,482</u></b>
<b>Deferred Inflows of Resources</b>		
Deferred intflows of resources related to pensions....	<u>-</u>	<u>26,275</u>
<b>Net Position:</b>		
Net investment in capital assets.....	20,302,082	19,776,278
Restricted.....	196,316	263,887
Unrestricted.....	<u>(16,029,213)</u>	<u>(16,223,139)</u>
<b>Total net position.....</b>	<b><u>\$ 4,469,185</u></b>	<b><u>\$ 3,817,026</u></b>

Governmental activities increased the District's net position by \$652,000. The following table shows the key elements of this increase:

	<u>2016</u>	<u>2015</u>
<b>Program Revenues:</b>		
Charges for services.....	\$ 1,031,629	\$ 1,082,534
<b>General Revenues:</b>		
Member town assessments.....	22,423,395	20,816,189
Unrestricted investment income.....	13,491	6,927
Nonrestricted grants.....	7,429,929	6,197,726
Miscellaneous.....	<u>23,815</u>	<u>23,452</u>
<b>Total revenues.....</b>	<b><u>30,922,259</u></b>	<b><u>28,126,828</u></b>
<b>Expenses:</b>		
Administration.....	746,133	791,406
Instructional services.....	14,889,177	14,200,318
Other student services.....	2,263,032	2,406,979
Operations and maintenance.....	1,594,676	1,647,195
Fixed charges.....	7,587,187	6,827,963
Programs with other districts.....	992,404	1,071,804
Interest.....	837,276	901,640
Depreciation.....	<u>1,360,215</u>	<u>1,376,941</u>
<b>Total expenses.....</b>	<b><u>30,270,100</u></b>	<b><u>29,224,246</u></b>
<b>Change in net position.....</b>	<b>652,159</b>	<b>(1,097,418)</b>
<b>Net position, beginning of year.....</b>	<b><u>3,817,026</u></b>	<b><u>4,914,444</u></b>
<b>Net position, end of year.....</b>	<b><u>\$ 4,469,185</u></b>	<b><u>3,817,026</u></b>



Total revenue increased by \$2.8 million (10%) from 2015. This was due to a \$1.6 million increase in member town assessments and a \$1.0 million increase in the Massachusetts Teachers Retirement System on-behalf payments.

Total expenses increased by \$1 million (4%) during the year which was primarily due to the increase in on-behalf payments made by the Commonwealth for teachers' retirement benefits.

### ***Financial Analysis of the Government's Funds***

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, governmental funds reported a combined ending fund balance of \$3.7 million, an increase of \$797,000 in comparison with the prior year.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund was \$696,000, while total fund balance is \$1.4 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 2% of total general fund expenditures, while total fund balance represents 5% of that same amount.

The general fund increased by \$566,000 in 2016. The increase is primarily because budgeted expenditures were \$362,000 lower than anticipated and budgeted revenues were \$106,000 higher than anticipated, along with a premium recognized in a refunding of debt.

The school choice fund accounts for the activities related to the state's school choice program. At the end of the current year, the fund balance reported a surplus totaling \$1.6 million.

### ***Capital Asset and Debt Administration***

The District has \$22 million in long-term bonds outstanding at year-end; all of which is related to the middle/high school construction project.

In order to take advantage of favorable interest rates, the District issued \$14.8 million of General Obligation Refunding Bonds on April 12, 2016 for an advance refunding of \$15 million in debt. This refunding reduce future debt service payments by \$1.7 million..

Major capital events during the current year included \$174,000 of building improvements, \$21,000 for the purchase of equipment, and \$45,000 for the purchase of library books and textbooks.

Please refer to notes 3, 4 and 5 for more information on capital and debt activity.

## ***Requests for Information***

This financial report is designed to provide a general overview of the Manchester Essex Regional School District's 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 Business Manager, Manchester Essex Regional School District, 36 Lincoln Street, Manchester, MA 01944.

# ***Basic Financial Statements***

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**STATEMENT OF NET POSITION**

JUNE 30, 2016

	<b>Primary Government</b>
	Governmental Activities
<b>ASSETS</b>	
CURRENT:	
Cash and cash equivalents.....	\$ 4,092,733
NONCURRENT:	
Capital assets, net of accumulated depreciation:	
Depreciable.....	42,253,608
TOTAL ASSETS.....	46,346,341
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions.....	370,371
<b>LIABILITIES</b>	
CURRENT:	
Warrants payable.....	366,205
Accrued payroll.....	24,081
Accrued interest.....	363,861
Other liabilities.....	1,787
Compensated absences.....	20,000
Bonds payable.....	1,608,214
NONCURRENT:	
Compensated absences.....	383,709
Other postemployment benefits.....	12,591,010
Net pension liability.....	6,545,348
Bonds payable.....	20,343,312
TOTAL LIABILITIES.....	42,247,527
<b>NET POSITION</b>	
Net investment in capital assets.....	20,302,082
Restricted for:	
Gifts and grants.....	196,316
Unrestricted.....	(16,029,213)
TOTAL NET POSITION.....	\$ 4,469,185

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Charges for Services</u>	<u>Net (Expense) Revenue</u>
<b>Primary Government:</b>				
<i>Governmental Activities:</i>				
Administration.....	\$ 746,133	\$ 22,500	\$	(723,633)
Instructional services.....	14,889,177	73,718		(14,815,459)
Other student services.....	2,263,032	935,411		(1,327,621)
Operation and maintenance.....	1,594,676	-		(1,594,676)
Fixed charges.....	7,587,187	-		(7,587,187)
Programs with other school districts.....	992,404	-		(992,404)
Interest.....	837,276	-		(837,276)
Depreciation.....	1,360,215	-		(1,360,215)
 Total Governmental Activities.....	 <u>\$ 30,270,100</u>	 <u>\$ 1,031,629</u>	 <u>\$</u>	 <u>(29,238,471)</u>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

YEAR ENDED JUNE 30, 2016

	Primary Government
	Governmental Activities
<b>Changes in net position:</b>	
Net (expense) revenue from previous page.....	\$ <b>(29,238,471)</b>
<i>General revenues:</i>	
Member town assessments.....	22,423,395
Unrestricted investment income.....	13,491
Grants and contributions not restricted to specific programs.....	7,429,929
Miscellaneous.....	23,815
Total general revenues.....	29,890,630
Change in net position.....	652,159
<i>Net position:</i>	
Beginning of year.....	3,817,026
End of year.....	\$ 4,469,185
See notes to basic financial statements.	(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2016

	General	School Choice Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 1,708,535	\$ 1,621,389	\$ 762,809	\$ 4,092,733
<b>LIABILITIES</b>				
Warrants payable.....	\$ 296,008	\$ -	\$ 70,197	\$ 366,205
Accrued payroll.....	21,670	-	2,411	24,081
Other liabilities.....	1,787	-	-	1,787
<b>TOTAL LIABILITIES.....</b>	<b>319,465</b>	<b>-</b>	<b>72,608</b>	<b>392,073</b>
<b>FUND BALANCES</b>				
Restricted.....	386,604	1,621,389	697,726	2,705,719
Committed.....	200,000	-	-	200,000
Assigned.....	106,695	-	-	106,695
Unassigned.....	695,771	-	(7,525)	688,246
<b>TOTAL FUND BALANCES.....</b>	<b>1,389,070</b>	<b>1,621,389</b>	<b>690,201</b>	<b>3,700,660</b>
<b>TOTAL LIABILITIES AND FUND BALANCES...</b>	<b>\$ 1,708,535</b>	<b>\$ 1,621,389</b>	<b>\$ 762,809</b>	<b>\$ 4,092,733</b>

See notes to basic financial statements.



**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION**

JUNE 30, 2016

Total governmental fund balances.....		\$ 3,700,660
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		42,253,608
Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions.....		370,371
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(363,861)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds payable.....	(21,951,526)	
Other postemployment benefits.....	(12,591,010)	
Net pension liability.....	(6,545,348)	
Compensated absences.....	<u>(403,709)</u>	
Net effect of reporting long-term liabilities.....		<u>(41,491,593)</u>
Net position of governmental activities.....		<u>\$ 4,469,185</u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2016

	General	School Choice Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Member town assessments.....	\$ 22,423,395	\$ -	\$ -	\$ 22,423,395
Intergovernmental.....	6,100,090	457,298	719,438	7,276,826
Departmental and other.....	29,963	-	1,090,417	1,120,380
Contributions.....	-	-	88,167	88,167
Investment income.....	13,491	-	-	13,491
<b>TOTAL REVENUES.....</b>	<b>28,566,939</b>	<b>457,298</b>	<b>1,898,022</b>	<b>30,922,259</b>
<b>EXPENDITURES:</b>				
Current:				
Salaries:				
Administration.....	520,230	-	-	520,230
Instructional services.....	13,242,621	-	467,939	13,710,560
Other student services.....	653,426	-	288,107	941,533
Operation and maintenance.....	350,273	-	35,028	385,301
Fixed charges.....	20,001	-	5,856	25,857
Other operating expenditures:				
Administration.....	209,721	-	16,182	225,903
Instructional services.....	1,086,028	-	145,315	1,231,343
Other student services.....	701,541	-	619,958	1,321,499
Operation and maintenance.....	1,041,945	340,946	-	1,382,891
Fixed charges.....	7,090,467	-	52,236	7,142,703
Programs with other school districts.....	838,731	-	153,673	992,404
Debt service:				
Maturing debt.....	1,445,000	-	-	1,445,000
Interest.....	915,500	-	-	915,500
<b>TOTAL EXPENDITURES.....</b>	<b>28,115,484</b>	<b>340,946</b>	<b>1,784,294</b>	<b>30,240,724</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>451,455</b>	<b>116,352</b>	<b>113,728</b>	<b>681,535</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from refunding bonds.....	14,835,000	-	-	14,835,000
Premium from issuance of refunding bonds.....	1,309,703	-	-	1,309,703
Payments to refunded bond escrow agent.....	(16,029,726)	-	-	(16,029,726)
<b>TOTAL OTHER FINANCING SOURCES (USES)....</b>	<b>114,977</b>	<b>-</b>	<b>-</b>	<b>114,977</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>566,432</b>	<b>116,352</b>	<b>113,728</b>	<b>796,512</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>822,638</b>	<b>1,505,037</b>	<b>576,473</b>	<b>2,904,148</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 1,389,070</b>	<b>\$ 1,621,389</b>	<b>\$ 690,201</b>	<b>\$ 3,700,660</b>

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds.....	\$	796,512
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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.

Capital outlay.....	239,957	
Depreciation expense.....	<u>(1,360,215)</u>	
Net effect of reporting capital assets.....		(1,120,258)

The issuance of long-term debt (e.g., bonds and leases) 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 premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Payments to refunded bond escrow agent.....	16,029,726	
Proceeds from refunding bonds.....	(14,835,000)	
Premium from issuance of refunding bonds.....	(1,309,703)	
Debt service principal payments.....	<u>1,445,000</u>	
Net effect of reporting long-term debt.....		1,330,023

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	(13,715)	
Net change in other postemployment benefits.....	(591,382)	
Net change in accrued interest on long-term debt.....	322,139	
Net change in amortization of bond premiums.....	36,062	
Net change in net pension liability.....	(503,868)	
Net change in deferred outflow/(inflow) of resources related to pensions.....	<u>396,646</u>	
Net effect of recording long-term liabilities.....		<u>(354,118)</u>

Change in net position of governmental activities.....	\$	<u><u>652,159</u></u>
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See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 399,544	\$ 21,994	\$ 188,482
<b>LIABILITIES</b>			
Other liabilities.....	-	-	188,482
<b>NET POSITION</b>			
Held in trust for other purposes.....	\$ 399,544	\$ 21,994	\$ -

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF CHANGES IN NET POSITION

FISCAL YEAR ENDED JUNE 30, 2016

	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds
<u>ADDITIONS:</u>		
Contributions:		
Employer.....	\$ 349,544	\$ -
Private donations.....	-	27,144
TOTAL ADDITIONS.....	349,544	27,144
<u>DEDUCTIONS:</u>		
Educational scholarships.....	-	5,150
CHANGE IN NET POSITION.....	349,544	21,994
NET POSITION AT BEGINNING OF YEAR.....	50,000	-
NET POSITION AT END OF YEAR.....	\$ 399,544	\$ 21,994

See notes to basic financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements of the Manchester Essex Regional School District (District) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

**A. Reporting Entity**

The District was formed in 2001 under Chapter 71 of the Massachusetts General Laws that, by agreement, serves the Towns of Manchester-by-the-Sea and Essex (Member Towns). A seven-member School Committee governs the District, which consists of elected members from the Member Towns.

For financial reporting purposes, the District has included all funds, organizations, agencies, boards, commissions and institutions. The District has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the District (the primary government) and its component units. The District has no component units that require inclusion in these basic financial statements.

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

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. *Governmental activities* are primarily supported by member town assessments and intergovernmental revenues.

*Fund Financial Statements*

Separate financial statements are provided for governmental funds and fiduciary funds even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

*Major Fund Criteria*

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

- If total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of an individual governmental fund are at least 10 percent of the corresponding element (assets and deferred outflows of resources, liabilities and deferred inflows or resources, etc.) for all funds of that category, *and*
- If the total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

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

Fiduciary funds are reported by fund type.

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

#### *Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular 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 charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

Other items not identifiable as program revenues are reported as general revenues.

The effect of interfund activity has been removed from the government-wide financial statements.

#### *Fund Financial Statements*

**Governmental** fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Investment income is susceptible to accrual. Other receipts and revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *school choice fund* is a special revenue fund used to account for activities related to the state's school choice program.

The nonmajor governmental funds consist of other special revenue and capital projects that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

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.

**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 funds are reported:

The fiduciary fund type *agency fund* is used to account for payroll deductions that are held in a purely custodial capacity.

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

The *private purpose trust funds* are used to account for trust arrangements that exclusively benefit other individuals.

#### D. Cash and Investments

##### *Government-Wide and Fund Financial Statements*

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

#### E. Fair Value Measurements

The District reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.



Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the District's financial instruments, see Note 2 – Cash and Investments.

#### F. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

##### ***Intergovernmental***

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

#### G. Inventories

##### *Government-Wide and Fund Financial Statements*

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

#### H. Capital Assets

##### *Government-Wide Financial Statements*

Capital assets, which include buildings and improvements, vehicles and equipment, text and library books, and modular classrooms, are reported in the government-wide financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the

governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of granter than one year.

Capital assets are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings and improvements.....	40
Vehicles and equipment.....	7-15
Textbooks and library books.....	3-10
Modular classrooms.....	10

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

*Governmental Fund Financial Statements*

Capital asset costs are recorded as expenditures in the acquiring fund in the year of the purchase.

I. Deferred Outflows/Inflows of Resources

*Government-Wide Financial Statements (Net Position)*

In addition to assets, the statement of financial position 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. The District reported deferred outflows of resources related to pensions in this category.

In addition to liabilities, the statement of financial position 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 did not have any elements that qualify for reporting in this category.

*Governmental Fund Financial Statements*

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents assets that have been recorded in the governmental fund financial statements but the revenue is not available and so will *not* be recognized as an inflow of resources (revenue) until it becomes available. The District did not have any elements that qualify for reporting in this category.

### J. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

#### *Government-Wide Financial Statements*

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities are reported in the statement of net position as "internal balances".

#### *Fund Financial Statements*

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

### K. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

#### *Government-Wide Financial Statements*

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities are reported in the statement of activities as "Transfers, net".

#### *Fund Financial Statements*

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

### L. Net Position and Fund Equity

#### Government-Wide Financial Statements (Net Position)

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 capital assets. Outstanding debt related to future reimbursements from the state's school building program is not considered to be capital related debt.

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net position has been restricted for "gifts and grants" which represent assets that have restrictions placed on them from outside parties.

Sometimes the School District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

#### Fund Financial Statements (Fund Balances)

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.

“Assigned” fund balance includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

#### M. Investment Income

Investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

#### N. 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 both the Essex Regional Retirement System (ERRS) and the Massachusetts Teachers Retirement System (MTRS) 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.

### O. Use of Estimates

#### *Government-Wide and Fund Financial Statements*

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the year. Actual results could vary from estimates that were used.

### P. 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.

### Q. Fund Deficits

Individual fund deficits exist at June 30, 2016, within the special revenue funds. These deficits will be funded with available funds in subsequent years.

## **NOTE 2 – CASH AND INVESTMENTS**

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth. In addition, there are various restrictions limiting the amount and length of deposits and investments.

#### Custodial Credit Risk – Deposits

In the case of deposits, this is risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for custodial credit risk allows deposits in excess of Federal Depository Insurance (FDIC). To mitigate the risk of uninsured deposits, the District requires banks to be SEC or state/federal bank regulated, of good reputation and have their long-term debt highly rated by national rating agencies. The District will also diversify its deposits by institution in order to minimize the impact of potential losses from any one institution. Collateralization will be required on certificates of deposit. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be (100%) market value of principal. At year-end, the carrying amount of deposits totaled \$4,702,753 and the bank balance totaled \$5,116,139. Of the bank balance, \$503,456 was covered by Federal Depository Insurance, \$2,982,677 was collateralized, and \$1,630,006 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**NOTE 3 – CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	\$ 50,007,210	\$ 173,516	\$ -	\$ 50,180,726
Vehicles and equipment.....	179,017	21,378	-	200,395
Textbooks and library books.....	880,965	45,063	-	926,028
Modular classrooms.....	<u>439,297</u>	<u>-</u>	<u>-</u>	<u>439,297</u>
Total capital assets being depreciated.....	<u>51,506,489</u>	<u>239,957</u>	<u>-</u>	<u>51,746,446</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(6,919,010)	(1,275,530)	-	(8,194,540)
Vehicles and equipment.....	(75,630)	(17,101)	-	(92,731)
Textbooks and library books.....	(698,686)	(67,584)	-	(766,270)
Modular classrooms.....	<u>(439,297)</u>	<u>-</u>	<u>-</u>	<u>(439,297)</u>
Total accumulated depreciation.....	<u>(8,132,623)</u>	<u>(1,360,215)</u>	<u>-</u>	<u>(9,492,838)</u>
Total capital assets, net.....	<u>\$ 43,373,866</u>	<u>\$ (1,120,258)</u>	<u>\$ -</u>	<u>\$ 42,253,608</u>

Depreciation expense was not allocated to governmental functions and appears unallocated on the statement of activities.

**NOTE 4 – SHORT-TERM FINANCING**

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund.

At June 30, 2016, the District had no short-term debt outstanding.

**NOTE 5 – LONG-TERM DEBT**

State law permits the District, under the provisions of Chapter 71, Section 16, to authorize indebtedness for capital acquisition and construction. Furthermore, written notice of the amount of debt authorized and the general purpose of the debt must be given to the Board of Selectmen in each of the member Town’s comprising the District.

In order to take advantage of favorable interest rates, the District issued \$14,835,000 of General Obligation Refunding Bonds on April 12, 2016 for an advance refunding of \$15,000,000 in debt. The \$15,000,000 of General Obligation Bonds were advance refunded by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This refunding was undertaken to reduce the total debt service payments by \$1,671,350 and resulted in an economic gain of \$1,378,183. At June 30, 2016, \$15,000,000 of bonds outstanding from the refunding is considered defeased.

Details related to the outstanding indebtedness at June 30, 2016, and the debt service requirements are as follows:

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2015	Issued	Redeemed	Outstanding at June 30, 2016
School Construction.....	2033	\$ 25,000,000	3.98%	\$ 18,000,000	\$ -	\$ 16,000,000	\$ 2,000,000
School Construction.....	2030	5,000,000	3.40%	3,750,000	-	250,000	3,500,000
School Construction.....	2023	1,964,000	1.39%	1,560,000	-	195,000	1,365,000
Refunding Bonds of 2016...	2033	14,835,000	2.00-4.00%	-	14,835,000	-	14,835,000
Total governmental bonds payable.....				23,310,000	14,835,000	16,445,000	21,700,000
Unamortized premiums.....				287,588	-	36,062	251,526
Total.....				\$ 23,597,588	\$ 14,835,000	\$ 16,481,062	\$ 21,951,526

Debt service requirements for principal and interest for Governmental bonds payable in future years are as follows:

Year	Principal	Interest	Total
2017.....	\$ 1,575,000	\$ 802,638	\$ 2,377,638
2018.....	1,455,000	719,213	2,174,213
2019.....	1,455,000	633,138	2,088,138
2020.....	1,455,000	578,838	2,033,838
2021.....	1,445,000	524,738	1,969,738
2022.....	1,445,000	470,838	1,915,838
2023.....	1,445,000	416,938	1,861,938
2024.....	1,250,000	364,988	1,614,988
2025.....	1,250,000	314,988	1,564,988
2026.....	1,250,000	264,988	1,514,988
2027.....	1,250,000	222,488	1,472,488
2028.....	1,230,000	186,513	1,416,513
2029.....	1,215,000	149,769	1,364,769
2030.....	1,200,000	112,250	1,312,250
2031.....	940,000	73,900	1,013,900
2032.....	925,000	44,769	969,769
2033.....	915,000	14,869	929,869
Totals.....	\$ 21,700,000	\$ 5,895,863	\$ 27,595,863

Changes in Long-term Liabilities

During the year ended June 30, 2016, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term bonds.....	\$ 23,310,000	\$ 14,835,000	\$ (16,445,000)	\$ 21,700,000	\$ 1,575,000
Unamortized premium on bonds...	<u>287,588</u>	<u>-</u>	<u>(36,062)</u>	<u>251,526</u>	<u>33,214</u>
Bonds payable, net.....	23,597,588	14,835,000	(16,481,062)	21,951,526	1,608,214
Compensated absences.....	389,994	33,715	(20,000)	403,709	20,000
Other postemployment benefits.....	11,999,628	1,841,030	(1,249,648)	12,591,010	-
Net pension liability.....	<u>6,041,480</u>	<u>1,381,299</u>	<u>(877,431)</u>	<u>6,545,348</u>	<u>-</u>
Total.....	<u>\$ 42,028,690</u>	<u>\$ 18,091,044</u>	<u>\$ (18,628,141)</u>	<u>\$ 41,491,593</u>	<u>\$ 1,628,214</u>

**NOTE 6 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.



As of June 30, 2016, the governmental fund balances consisted of the following:

	<u>General</u>	<u>School Choice Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances				
Restricted for:				
School choice..... \$	-	\$ 1,621,389	-	\$ 1,621,389
Gifts & private grant funds.....	-	-	68,666	68,666
State & federal grant funds.....	-	-	127,650	127,650
Student activity funds.....	-	-	214,327	214,327
MS/HS maintenance funds.....	-	-	44,206	44,206
Other special revenue funds.....	-	-	229,344	229,344
Other capital project funds.....	-	-	13,533	13,533
Debt service.....	225,156	-	-	225,156
Capital outlay stabilization.....	161,448	-	-	161,448
Committed to:				
School construction feasibility study.....	200,000	-	-	200,000
Assigned to:				
Administration.....	257	-	-	257
Instructional services.....	26,866	-	-	26,866
Other student services.....	3,000	-	-	3,000
Operations and maintenance.....	6,563	-	-	6,563
Programs with other districts.....	70,009	-	-	70,009
Unassigned.....	<u>695,771</u>	<u>-</u>	<u>(7,525)</u>	<u>688,246</u>
Total Fund Balances..... \$	<u>1,389,070</u>	<u>\$ 1,621,389</u>	<u>\$ 690,201</u>	<u>\$ 3,700,660</u>

**NOTE 7 – RISK FINANCING**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District participates in premium-based health care plans for its active employees and its retirees’.

**NOTE 8 – PENSION PLAN**

*Plan Descriptions*

The District is a member of the Essex Regional Retirement System (ERRS), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the member units. The system is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan.

The District is a member of the Massachusetts Teachers’ Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives and Quincy College. The MTRS is part of the Commonwealth’s reporting entity and the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

### *Special Funding Situation*

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the District to the MTRS. Therefore, the District is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the District does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2015. The District's portion of the collective pension expense, contributed by the Commonwealth, of \$3,154,660 is reported in the general fund as intergovernmental revenue and pension expense in the current fiscal year. The portion of the Commonwealth's collective net pension liability associated with the District is \$38,894,127 as of the measurement date.

### *Benefits Provided*

Both Systems provide retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

### *Contributions*

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute to the System at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the ERRS a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The District's proportionate share of the required contribution equaled its actual contribution for the year ended December 31, 2015 was \$494,914, 20.0% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

*Pension Liabilities*

At June 30, 2016, the District reported a liability of \$6,545,348 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. Accordingly, update procedures were used to roll forward the total pension 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. At December 31, 2015, the District's proportion was 1.801%, which increased by 0.020% from its proportion measured at December 31, 2014.

*Pension Expense*

For the year ended June 30, 2016, the District recognized pension expense of \$602,136. At June 30, 2016, the District reported deferred outflows of resources related to pensions of \$370,371, from the net difference between projected and actual investment earnings on pension plan investments and changes in proportion and differences between employer contributions and proportionate share of contributions. Since the System performs an actuarial valuation bi-annually, there are not reported differences between expected and actual experience or a change of assumptions as of December 31, 2015.

The balances of deferred outflows at June 30, 2016 consist of the following:

<u>Deferred category</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience.....	\$ 350,196
Changes in proportionate share of contributions.....	<u>20,175</u>
Total Deferred Outflows of Resources.....	<u><u>370,371</u></u>

The District's deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2017.....	\$ 90,695
2018.....	90,695
2019.....	90,695
2020.....	97,324
2021.....	<u>962</u>
Total.....	<u><u>\$ 370,371</u></u>

*Actuarial Assumptions*

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

Valuation date.....	January 1, 2014
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	Closed - Approximate level percent of payroll.
Remaining amortization period.....	20 years for the fresh start base.
Asset valuation method.....	Market value adjusted by accounts payable and receivables adjusted to phase in over 5 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value.
Projected salary increases.....	Select and Ultimate. 7.50% year one, 6.50% year two, 6.00% year three, 5.50% year four, 5.00% year five, 3.75% ultimate rate.
Cost of living adjustments.....	3.0% of the first \$13,000 of a members retirement allowance is assumed to be granted every year.
Rates of retirement.....	Varies based upon age for general employees, police and fire employees.
Rates of disability.....	Disability is assumed to be 45% ordinary and 55% accidental for Groups 1 and 2 and 10% ordinary and 90% accidental for Group 4.
Mortality Rates:	
Pre-Retirement.....	The RP-2000 Employee Mortality Table (sex distinct) projected with a Scale BB and Generational Mortality. During employment the healthy employee mortality table is used. Post-employment the healthy annuitant table is used.
Disabled Retiree.....	The RP-2000 Healthy Annuitant Mortality Table (sex distinct) projected with scale BB and Generational Mortality set-forward by 2 years. Death is assumed to be due to the same cause as the disability 40% of the time.
Investment rate of return/Discount rate.....	8% per year.

*Investment policy*

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by 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.

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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of January 1, 2014, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Long-Term Expected Asset Allocation
Core bonds.....	0.97%	13.00%
Value-added bonds.....	3.80%	10.00%
Large cap equities.....	4.61%	14.50%
Mid/small cap equities.....	4.85%	3.50%
International equities.....	5.10%	16.00%
Emerging market equities.....	6.31%	6.00%
Private equity.....	6.55%	10.00%
Real estate.....	3.40%	10.00%
Timber natural resources.....	3.64%	4.00%
Hedge funds.....	3.64%	9.00%
Cash/portfolio completion.....	0.00%	4.00%
		<u>100.00%</u>

*Rate of return*

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.04%. 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 pension liability was 8.00%. 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 contributions will be made at rates equal to the actuarially determined contribution rate. 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 net pension liability to changes in the discount rate*

The following presents the net pension liability, calculated using the discount rate of 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
The District's proportionate share of the net pension liability.....	\$ 8,046,750	\$ 6,545,348	\$ 5,384,950

**NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

*Plan Description* – The Manchester Essex Regional School District administers a single-employer defined benefit healthcare plan (Retiree Health Plan). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the District’s group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the District and the unions representing District employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

*Funding Policy* – Contribution requirements are negotiated between the District and union representatives. The required contribution is based on a pay-as-you-go financing requirement. All retirees and beneficiaries pay a 20% share of their postretirement medical costs for MEDEX and HMO plans. Participants electing the PPO plan pay the difference between 80% of the HMO plan and the full cost of the PPO plan.

*Annual OPEB Cost and Net OPEB Obligation* – The District’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$	1,674,553
Interest on net OPEB obligation.....		719,978
Adjustment to annual required contribution.....		<u>(553,501)</u>
Annual OPEB Cost (expense).....		1,841,030
Annual Employer Contributions.....		<u>(1,249,648)</u>
Increase/Decrease in net OPEB obligation.....		591,382
Net OPEB obligation - beginning of year.....		<u>11,999,628</u>
Net OPEB obligation - end of year.....	\$	<u><u>12,591,010</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 was as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2016	\$ 1,841,030	68%	\$ 12,591,010
6/30/2015	1,746,856	39%	11,999,628
6/30/2014	2,492,240	22%	10,930,240

*Funded Status and Funding Progress* – As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$18,000,092. The District has funded \$50,000, which resulted in a funded ratio of 0.3%. The unfunded actuarial accrued liability for benefits totaled \$17,950,092 and the covered payroll (annual payroll of active employees covered by the plan) totaled \$14,478,974. The unfunded actuarial accrued liability was 124% of covered payroll. The District contributed \$349,544 to the OPEB trust fund in 2016 and the net position totaled \$399,544 at June 30, 2016.

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

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

In the July 1, 2015 actuarial valuation, actuarial liabilities were determined using the entry age normal cost method. The actuarial assumptions included a 6.0% investment return assumption, which is based on the expected yield on the assets of the District, calculated based on the funded level of the plan at the valuation date, and an annual medical trend rate of 7.0% initially, graded to 4.5% over 6 years. The UAAL is being amortized over a 30 year period on an open basis. The remaining amortization period at June 30, 2016, is 30 years.

#### **NOTE 10 – CONTINGENCIES**

The District participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2016, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2016.

#### **NOTE 11 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 14, 2017, which is the date the financial statements were available to be issued.

**NOTE 12 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During 2016, the following GASB pronouncements were implemented:

- GASB Statement #72, *Fair Value Measurement and Application*. Notes to the basic financial statements were changed to provide additional disclosure on fair value measurement.
- The GASB issued Statement #73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This pronouncement did not impact the basic financial statements.
- GASB Statement #76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This pronouncement did not impact the basic financial statements.
- GASB Statement #79, *Certain External Investment Pools and Pool Participants*. The basic financial statements and related notes were updated to be in compliance with this pronouncement.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #77, *Tax Abatement Disclosures*, which is required to be implemented in 2017.
- The GASB issued Statement #78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is required to be implemented in 2017.
- The GASB issued Statement #80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*, which is required to be implemented in 2017.
- The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018.
- The GASB issued Statement #82, *Pension Issues – an amendment of GASB Statements #67, #68, and #73*, which is required to be implemented in 2018.

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



## ***Required Supplementary Information***

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2016

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
<b>REVENUES:</b>				
Member town assessments.....	\$ -	\$ 22,423,396	\$ 22,423,396	\$ 22,423,395
Intergovernmental.....	-	2,850,036	2,850,036	2,850,036
Departmental and other.....	-	28,000	28,000	28,000
Investment income.....	-	5,000	5,000	5,000
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>25,306,432</b>	<b>25,306,432</b>	<b>25,306,431</b>
<b>EXPENDITURES:</b>				
Current:				
Salaries:				
Administration.....	-	749,732	749,732	559,178
Instructional services.....	-	13,160,468	13,160,468	13,318,767
Other student services.....	-	743,181	743,181	700,305
Operation and maintenance.....	-	374,820	374,820	355,354
Fixed charges.....	-	-	-	20,001
Other operating expenditures:				
Administration.....	1,999	271,000	272,999	233,749
Instructional services.....	17,040	970,486	987,526	1,140,544
Other student services.....	-	794,377	794,377	778,242
Operation and maintenance.....	10,559	1,294,480	1,305,039	1,224,656
Fixed charges.....	-	3,839,333	3,839,333	3,829,341
Programs with other school districts.....	13,077	763,329	776,407	908,382
Debt service:				
Maturing debt.....	-	1,445,000	1,445,000	1,445,000
Interest.....	-	915,500	915,500	915,500
<b>TOTAL EXPENDITURES.....</b>	<b>42,675</b>	<b>25,321,706</b>	<b>25,364,382</b>	<b>25,429,019</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(42,675)</b>	<b>(15,274)</b>	<b>(57,950)</b>	<b>(122,588)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Premium from issuance of refunding bonds and notes.....	-	-	-	-
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(42,675)</b>	<b>(15,274)</b>	<b>(57,950)</b>	<b>(122,588)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>-</b>	<b>661,190</b>	<b>661,190</b>	<b>661,190</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ (42,675)</b>	<b>\$ 645,916</b>	<b>\$ 603,240</b>	<b>\$ 538,602</b>

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$	22,423,395	\$ -	\$ -
	2,945,430	-	95,394
	29,963	-	1,963
	13,491	-	8,491
	<u>25,412,279</u>	<u>-</u>	<u>105,848</u>
	520,230	-	38,948
	13,242,621	-	76,146
	653,426	-	46,879
	350,273	-	5,081
	20,001	-	-
	209,721	257	23,771
	1,086,028	26,866	27,650
	701,541	3,000	73,701
	1,041,945	6,563	176,148
	3,935,807	-	(106,466)
	838,731	70,009	(358)
	1,445,000	-	-
	915,500	-	-
	<u>24,960,824</u>	<u>106,695</u>	<u>361,500</u>
	<u>451,455</u>	<u>(106,695)</u>	<u>467,348</u>
	<u>114,977</u>	<u>-</u>	<u>114,977</u>
	566,432	(106,695)	582,325
	661,190	-	-
\$	<u><u>1,227,622</u></u>	<u><u>(106,695)</u></u>	<u><u>582,325</u></u>

# ***Pension Plan Schedules***

The Schedule of the District's Proportionate Share of the Net Pension Liability presents multi-year trend information on the District's net pension liability and related ratios.

The Schedule of District's Contributions presents multi-year trend information on the District's required and actual contributions to the pension plan and related ratios.

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts Teachers Contributory Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the District along with related ratios.

These schedules are intended to present information for ten years. Until a ten year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
ESSEX REGIONAL RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015
District's proportion of the net pension liability (asset).....	1.781%	1.801%
District's proportionate share of the net pension liability (asset).....	\$ 6,041,480	\$ 6,545,348
District's covered employee payroll.....	\$ 2,375,119	\$ 2,474,424
Net pension liability as a percentage of covered-employee payroll.....	254.37%	264.52%
Plan fiduciary net position as a percentage of the total pension liability.....	52.27%	51.01%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for  
which information is available.

See notes to required supplementary information.

**SCHEDULE OF CONTRIBUTIONS**  
**ESSEX REGIONAL RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015
Actuarially determined contribution.....	\$ 456,811	\$ 494,914
Contributions in relation to the actuarially determined contribution.....	<u>456,811</u>	<u>494,914</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll.....	\$ 2,375,119	\$ 2,474,424
Contributions as a percentage of covered- employee payroll.....	19.23%	20.00%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those  
years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS  
OF THE NET PENSION LIABILITY  
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**

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The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the District does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the District; the portion of the collective pension expense as both a revenue and pension expense recognized by the District; and the Plan's fiduciary net position as a percentage of the total liability.

<u>Fiscal Year</u>	<u>Commonwealth's 100% Share of the Net Pension Liability Associated with the District</u>	<u>District's Expense and Revenue Recognized for the Commonwealth's Support</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Liability</u>
2015.....	\$ 30,541,499	\$ 2,121,865	61.64%
2016.....	38,894,127	3,154,660	55.38%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

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# ***Other Postemployment Benefit Plan Schedules***

The Schedule of Funding Progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions compares, over time, the actuarial required contributions with the actual contributions made.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2015	\$ 50,000	\$ 18,000,092	\$ 17,950,092	0.3%	\$ 14,478,974	124.0%
7/1/2013	-	25,010,077	25,010,077	0.0%	13,920,467	179.7%
7/1/2010	-	18,148,331	18,148,331	0.0%	12,198,757	148.8%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2016	\$ 1,674,553	\$ 1,249,648	75%
2015	1,595,216	677,468	42%
2014	2,453,708	554,069	23%
2013	2,318,685	535,124	23%
2012	2,227,041	461,382	21%
2011	2,103,399	410,917	20%

See notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**ACTUARIAL METHODS AND ASSUMPTIONS**

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Actuarial Methods:

Valuation date.....	July 1, 2015
Actuarial cost method.....	Entry age normal
Remaining amortization period.....	30 years, open basis

Actuarial Assumptions:

Investment rate of return.....	6.0%
Healthcare cost trend rate.....	7.0% graded to 4.5% over 6 years

Plan Membership:

Current retirees, beneficiaries, and dependents.....	126
Current active members.....	<u>231</u>
Total.....	<u><u>357</u></u>

See notes to required supplementary information.

**NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**1. Budgetary Information

The District adopts a balanced budget that is approved by the Committee. The Superintendent of Schools presents an annual budget to the Committee, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Committee, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote. Increases in the budget subsequent to the approval of the annual budget require majority Committee approval.

The majority of the District's appropriations are non-continuing which lapse at the end of the year.

The District adopts an annual budget for the General Fund in conformity with the guidelines described above. The original 2016 approved budget for the General Fund authorized \$25.4 million in appropriations. The District approved supplemental appropriations totaling \$65,000 to fund a deficit related to cafeteria operations.

The District's accounting office has the responsibility to ensure that budgetary control is maintained on a bottom line, total budget basis. Budgetary control is exercised through the District's accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2016, is presented below:

Net change in fund balance, budgetary basis.....	\$	566,432
<u>Basis of accounting differences:</u>		
Recognition of revenue for on-behalf payments.....		3,154,660
Recognition of expenditures for on-behalf payments.....		<u>(3,154,660)</u>
Excess of revenues and other financing sources net change in fund balance, GAAP basis.....	\$	<u>566,432</u>

**NOTE B – PENSION PLAN**Schedule of the District's Proportionate Share of the Net Pension Liability

The Schedule of the District's Proportionate Share of the Net Pension Liability details the District's allocated percentage of the net pension liability (asset), the District's proportionate share of the net pension liability, and the District's covered employee payroll. It also demonstrates the District's net position as a percentage of the District's pension liability and the District's net pension liability as a percentage of District's covered payroll.

Schedule of District's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The District's appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The District's appropriations are payable on July 1 and January 1. The District may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual District contributions may be less than the "total appropriation". The pension fund appropriation is allocated to the District based on covered payroll.

Schedule of the Special Funding Amounts of the Net Pension Liability

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the District does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the District; the portion of the collective pension expense as both a revenue and pension expense recognized by the District; and the Plan's fiduciary net position as a percentage of the total liability.

Changes in Assumptions – NoneChanges in Plan Provisions – None

There were no plan provision changes that impacted the results of the most recent actuarial valuation with the exception of changes in the state's pension laws as described below.

Chapter 176 of the Acts of 2011, An Act Providing for Pension Reform and Benefit Modernization made a number of changes to the Chapter 32 pension law. There are several changes that will have the most impact on decreasing plan liabilities over the longer term. These include an increase in the normal retirement age by two years (for example, from age 65 to age 67 for Group 1 members), an increase in the age (early retirement) reduction factor for ages below the maximum age (from a 4.0% to a 6.0% annual reduction), and an increase in the period for determining a member's average annual compensation (from 3 years to 5 years). Since these changes are effective only for members hired after April 1, 2012, this is the first actuarial valuation to reflect these changes.

**NOTE C – OTHER POSTEMPLOYMENT BENEFITS PLAN**

The District administers a single-employer defined benefit healthcare plan ("The Retiree Health Plan"). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the District's group health insurance plan, which covers both active and retired members.

The District currently finances its other postemployment benefits (OPEB) on a combined pre-funded and a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0.3%. In accordance with Governmental Accounting Standards, the District has recorded its OPEB cost equal to the actuarially determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress and Employer Contributions presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets and the actuarial required contributions with the actual contributions made.

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