

HAMILTON-WENHAM REGIONAL SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2020

HAMILTON-WENHAM REGIONAL SCHOOL DISTRICT

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JUNE 30, 2020

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Independent Auditor's Report

To the Honorable School Committee
Hamilton-Wenham Regional School District
Wenham, Massachusetts 01984

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 Hamilton-Wenham Regional School District (District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 of material misstatement.

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

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

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 District, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows, thereof 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, located on the following pages, 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 October 28, 2020, on our consideration of the 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* and should be read in conjunction with this report in considering the District's internal control over financial reporting and compliance.



October 28, 2020

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Hamilton-Wenham Regional School District, we offer readers of these basic financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2020. The District complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements. All amounts, unless otherwise indicated, are expressed in whole dollars.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Hamilton-Wenham 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.

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 and liabilities, with the difference between them 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).

The government-wide financial statements distinguish functions that are principally supported by member Town assessments and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include administration, instructional services, other student services, operation and maintenance, employee benefits and other fixed charges, programs with other districts, depreciation and interest. The District had no business-type activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. 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 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 Hamilton-Wenham 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 benefit plan.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position.

Net position of \$16.7 million reflects its investment in capital assets; less any related debt used to acquire those assets that are 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 \$664,000 represents resources that are subject to external restrictions on how they may be used.

The remaining balance of unrestricted net position has a year-end deficit of \$49.2 million. The primary reason for the deficit is the recognition of \$48.6 million and \$11.5 million of other postemployment benefit (OPEB) liabilities and pension liabilities, which were offset by the net effect of deferred outflows/inflows of resources related to pensions and OPEB totaling \$8.7 million.

On March 27, 2020, the United States Federal Government established the Coronavirus Aid, Relief and Economic Security (CARES) Act in response to the economic downfall caused by the COVID-19 pandemic. This Act requires that the payment from these funds be used only to cover expenses that; are necessary due to the public health emergency with respect COVID-19; were not accounted for in the budget most recently approved as of March 27, 2020; and were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020. As of June 30, 2020, the District did not incur any COVID-19 related expenses that were being submitted for reimbursement.

The District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources for governmental activities by \$31.9 million at the close of 2020.

	2020	2019 (As Restated)
Assets:		
Current assets.....	\$ 6,512,448	\$ 5,768,955
Capital assets, non depreciable.....	-	378,341
Capital assets, net of accumulated depreciation.....	19,729,782	20,134,601
Total assets.....	26,242,230	26,281,897
Deferred outflows of resources.....	10,031,637	4,595,982
Liabilities:		
Current liabilities (excluding debt).....	3,435,117	2,745,780
Noncurrent liabilities (excluding debt).....	60,338,450	50,605,541
Current debt.....	905,000	1,079,917
Noncurrent debt.....	2,155,000	2,378,864
Total liabilities.....	66,833,567	56,810,102
Deferred inflows of resources.....	1,311,012	436,502
Net position:		
Net investment in capital assets.....	16,670,559	17,525,820
Restricted.....	663,806	432,090
Unrestricted.....	(49,205,077)	(44,326,635)
Total net position.....	\$ (31,870,712)	\$ (26,368,725)

Governmental activities decreased the District's net position by \$5.5 million. The following table shows the key elements affecting this decrease.

	2020	2019 (As Restated)
Program Revenues:		
Charges for services.....	\$ 811,671	\$ 1,114,263
Operating grants and contributions.....	9,022,305	7,827,566
Capital grants and contributions.....	-	16,875
General Revenues:		
Member town assessments.....	29,571,568	28,421,240
Grants and contributions not restricted to specific programs.....	4,821,908	4,717,242
Unrestricted investment income.....	19,661	25,631
Miscellaneous.....	3,372	2,092
Total revenues.....	44,250,485	42,124,909
Expenses:		
District administration.....	985,866	1,114,659
Instructional services.....	20,343,940	20,725,565
Other student services.....	3,071,578	3,286,029
Operation and maintenance.....	2,047,521	2,155,409
Employee benefits and other fixed charges.....	16,756,722	13,011,440
Programs with other school districts (tuitions).....	5,159,151	3,436,848
Depreciation.....	1,302,402	1,315,684
Interest.....	85,292	121,438
Total expenses.....	49,752,472	45,167,072
Change in net position.....	(5,501,987)	(3,042,163)
Net position, beginning of year (as restated).....	(26,368,725)	(23,326,562)
Net position, end of year.....	\$ (31,870,712)	\$ (26,368,725)

Revenue increased by \$2.1 million during the year, which was primarily due to a \$1.2 million increase in member town assessments, and a \$1.2 million increase in operating grants and contributions.

Expenses increased by \$4.6 million during the year, which was primarily due to a \$3.7 million increase in employee benefits, and a \$1.7 million increase in programs with other districts.

Employee benefits and other fixed charges increased by \$3.7 million. \$1.8 million of the increase is due to an increase in expense associated with recording the OPEB liability and the related deferred outflows/inflows of resources and \$1.6 million is due to an increase in nonemployer contributions paid by the State to the Massachusetts Teachers Retirement System (MTRS).

The increase in programs with other Districts primarily relates to out of district public and private school tuitions.

The \$5.5 million decrease in net position is primarily due to a \$9.8 million decrease from the change in the OPEB liability and \$1.3 million of depreciation expense which is not budgeted. These decreases were offset by a \$4.9 million increase from the net change in deferred outflows/inflows of resources related to OPEB and general fund and revolving fund surpluses of \$191,000 and \$325,000, respectively.

Beginning net position of the governmental activities has been restated to reflect the update of the net OPEB liability's measurement date to the current year-end. Accordingly, previously reported net position, which reported a deficit balance of \$24.4 million, has been revised and totals a deficit balance of \$26.4 million (see Note 15).

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 the Hamilton-Wenham Regional School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Hamilton-Wenham Regional School District's 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.

At year-end, governmental funds reported a combined ending fund balance of \$2.5 million of which \$1.8 million relates to the general fund, \$1.2 million relates to the revolving fund, a deficit of \$714,000 relates to the Winthrop fire protection fund and \$212,000 relates to the nonmajor governmental funds. Cumulatively there was an increase of \$200,000 in fund balance from the prior year. The increase was due to a \$191,000 increase in the general fund, a \$325,000 increase in the revolving fund, a \$336,000 decrease in the Winthrop fire protection fund and a \$19,000 increase in the nonmajor governmental funds.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund was \$1.2 million, while total fund balance was \$1.8 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 3% of total general fund expenditures, while total fund balance represents 5% of that same amount.

The \$191,000 increase in the general fund is primarily due to a revenue surplus of \$75,000, an appropriation surplus of \$193,000 and a \$221,000 increase in encumbrances. These increases were offset by the use of \$147,000 of excess and deficiency to balance the budget.

The \$325,000 increase in the revolving fund is due to expected timing differences between the receipt and expenditure of program funds.

The \$336,000 decrease in the Winthrop fire protection fund is due to expected timing differences between costs being incurred to complete the project and the permanent financing of the project.

Capital Asset and Debt Administration

Outstanding long-term debt of the District totaled \$2.3 million as of June 30, 2020, of which \$1.1 million relates to the Cutler School roof and other school building repairs and \$1.2 million relates to the Buker School and Winthrop School heating and roof projects.

Capital asset additions totaled \$519,000, the majority of which relates to the Winthrop Fire Protection Project.

Requests for Information

This financial report is designed to provide a general overview of the Hamilton-Wenham 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 the Business Office, Hamilton-Wenham Regional School District, 5 School Street, Wenham, Massachusetts 01984.

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Basic Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2020

	<i>Primary Government</i>
	Governmental Activities
ASSETS	
CURRENT:	
Cash and cash equivalents.....	\$ 6,512,448
NONCURRENT:	
Capital assets, net of accumulated depreciation.....	19,729,782
TOTAL ASSETS.....	26,242,230
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions.....	1,159,847
Deferred outflows related to other postemployment benefits.....	8,871,790
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	10,031,637
LIABILITIES	
CURRENT:	
Warrants payable.....	1,413,096
Accrued payroll.....	1,696,749
Accrued interest.....	12,631
Other liabilities.....	168,816
Compensated absences.....	143,825
Notes payable.....	715,000
Bonds payable.....	190,000
Total current liabilities.....	4,340,117
NONCURRENT:	
Compensated absences.....	294,086
Net pension liability.....	11,456,239
Total other postemployment benefits liability.....	48,588,125
Bonds payable.....	2,155,000
Total noncurrent liabilities.....	62,493,450
TOTAL LIABILITIES.....	66,833,567
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions.....	729,049
Deferred inflows related to other postemployment benefits.....	581,963
TOTAL DEFERRED INFLOWS OF RESOURCES.....	1,311,012
NET POSITION	
Net investment in capital assets.....	16,670,559
Restricted for:	
Gifts and grants.....	663,806
Unrestricted.....	(49,205,077)
TOTAL NET POSITION.....	\$ (31,870,712)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary Government:				
<i>Governmental Activities:</i>				
District administration.....	\$ 985,866	\$ -	\$ -	\$ (985,866)
Instructional services.....	20,343,940	171,741	1,823,566	(18,348,633)
Other student services.....	3,071,578	639,930	135,011	(2,296,637)
Operation and maintenance.....	2,047,521	-	-	(2,047,521)
Employee benefits and other fixed charges.....	16,756,722	-	7,063,728	(9,692,994)
Programs with other school districts (tuitions).....	5,159,151	-	-	(5,159,151)
Depreciation.....	1,302,402	-	-	(1,302,402)
Interest.....	85,292	-	-	(85,292)
Total Governmental Activities.....	\$ 49,752,472	\$ 811,671	\$ 9,022,305	\$ (39,918,496)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (continued)

YEAR ENDED JUNE 30, 2020

	<i>Primary Government</i>
	Governmental Activities
Changes in net position:	
Net (expense) revenue from previous page.....	\$ (39,918,496)
<i>General revenues:</i>	
Member town assessments.....	29,571,568
Grants and contributions not restricted to specific programs.....	4,821,908
Unrestricted investment income.....	19,661
Miscellaneous revenue.....	3,372
Total general revenues.....	34,416,509
Change in net position.....	(5,501,987)
 <i>Net position:</i>	
Beginning of year (as restated).....	(26,368,725)
End of year.....	\$ (31,870,712)

See notes to basic financial statements.

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2020

	General	Revolving Fund	Winthrop Fire Protection Project	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents.....	\$ 4,973,995	\$ 1,302,353	\$ 777	\$ 235,323	\$ 6,512,448
LIABILITIES					
Warrants payable.....	\$ 1,359,247	\$ 37,833	\$ -	\$ 16,016	\$ 1,413,096
Accrued payroll.....	1,635,344	53,834	-	7,571	1,696,749
Other liabilities.....	142,178	26,638	-	-	168,816
Notes payable.....	-	-	715,000	-	715,000
TOTAL LIABILITIES.....	3,136,769	118,305	715,000	23,587	3,993,661
FUND BALANCES					
Restricted.....	-	1,184,048	-	211,736	1,395,784
Assigned.....	620,521	-	-	-	620,521
Unassigned.....	1,216,705	-	(714,223)	-	502,482
TOTAL FUND BALANCES.....	1,837,226	1,184,048	(714,223)	211,736	2,518,787
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....	\$ 4,973,995	\$ 1,302,353	\$ 777	\$ 235,323	\$ 6,512,448

See notes to basic financial statements.

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

JUNE 30, 2020

Total governmental fund balances.....	\$	2,518,787
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		19,729,782
The statement of net position includes certain deferred inflows of resources and deferred outflows of resources that will be amortized over future periods. In governmental funds, these amounts are not deferred.....		8,720,625
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(12,631)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable.....		(2,345,000)
Net pension liability.....		(11,456,239)
Total other postemployment benefits liability.....		(48,588,125)
Compensated absences.....		<u>(437,911)</u>
Net effect of reporting long-term liabilities.....		<u>(62,827,275)</u>
Net position of governmental activities.....	\$	<u>(31,870,712)</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2020

	General	Revolving Fund	Winthrop Fire Protection Project	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Member town assessments.....	\$ 29,571,568	\$ -	\$ -	\$ -	\$ 29,571,568
Intergovernmental.....	4,128,019	1,822,146	-	831,198	6,781,363
Intergovernmental - teachers retirement.....	7,063,728	-	-	-	7,063,728
Charges for services.....	-	255,768	-	555,903	811,671
Miscellaneous revenue.....	3,372	-	-	-	3,372
Investment income.....	19,661	-	-	-	19,661
TOTAL REVENUES.....	40,786,348	2,077,914	-	1,387,101	44,251,363
EXPENDITURES:					
Current:					
District administration.....	985,866	-	-	-	985,866
Instructional services.....	19,183,075	608,683	-	687,206	20,478,964
Other student services.....	2,145,692	15,216	-	897,771	3,058,679
Operation and maintenance.....	2,037,476	9,404	-	1,293	2,048,173
Employee benefits and other fixed charges.....	4,500,984	17,392	-	5,721	4,524,097
Pension benefits - teachers retirement.....	7,063,728	-	-	-	7,063,728
Programs with other school districts (tuitions).....	4,056,928	1,102,223	-	-	5,159,151
Capital outlay.....	-	-	460,882	878	461,760
Debt service:					
Debt service principal.....	185,000	-	-	-	185,000
Interest.....	86,260	-	-	-	86,260
TOTAL EXPENDITURES.....	40,245,009	1,752,918	460,882	1,592,869	44,051,678
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	541,339	324,996	(460,882)	(205,768)	199,685
OTHER FINANCING SOURCES (USES):					
Transfers in.....	2,203	-	125,000	227,109	354,312
Transfers out.....	(352,109)	-	-	(2,203)	(354,312)
TOTAL OTHER FINANCING SOURCES (USES).....	(349,906)	-	125,000	224,906	-
NET CHANGE IN FUND BALANCES.....	191,433	324,996	(335,882)	19,138	199,685
FUND BALANCES AT BEGINNING OF YEAR.....	1,645,793	859,052	(378,341)	192,598	2,319,102
FUND BALANCES AT END OF YEAR.....	\$ 1,837,226	\$ 1,184,048	\$ (714,223)	\$ 211,736	\$ 2,518,787

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, 2020

Net change in fund balances - total governmental funds.....	\$	199,685
<p>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.</p>		
Capital outlay.....		519,242
Depreciation expense.....		<u>(1,302,402)</u>
Net effect of reporting capital assets.....		(783,160)
<p>The issuance of long-term debt 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 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 unavailable and amortized in the Statement of Activities.</p>		
Principal payments on capital leases.....		78,781
Debt service principal payments.....		<u>185,000</u>
Net effect of reporting long-term debt.....		263,781
<p>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.</p>		
Net change in compensated absences accrual.....		(14,364)
Net change in accrued interest on long-term debt.....		968
Net change in deferred outflow/(inflow) of resources related to pensions.....		(387,505)
Net change in net pension liability.....		26,216
Net change in deferred outflow/(inflow) of resources related to other postemployment benefits...		4,948,650
Net change in total other postemployment benefits liability.....		<u>(9,756,258)</u>
Net effect of recording long-term liabilities.....		<u>(5,182,293)</u>
Change in net position of governmental activities.....	\$	<u><u>(5,501,987)</u></u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2020

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents.....	\$ 146,774	\$ 114,007
Investments.....	416,384	-
TOTAL ASSETS.....	563,158	114,007
LIABILITIES		
Liabilities due depositors.....	-	114,007
NET POSITION		
Held in trust for other purposes.....	\$ 563,158	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2020

		Private Purpose Trust Funds
<u>ADDITIONS:</u>		
Contributions:		
Private donations.....	\$	900
Net investment income:		
Investment income.....		28,027
TOTAL ADDITIONS.....		28,927
<u>DEDUCTIONS:</u>		
Educational scholarships.....		19,847
NET INCREASE (DECREASE) IN NET POSITION.....		9,080
NET POSITION AT BEGINNING OF YEAR.....		554,078
NET POSITION AT END OF YEAR.....	\$	563,158

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Hamilton-Wenham 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 Hamilton-Wenham Regional School District (the District), was regionalized in 1974 and by agreement serves the Towns of Hamilton and Wenham, Massachusetts. 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 activities) report information on all of the non-fiduciary activities of the primary government and its component units. *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 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 or type.

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

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either government or business-type. Governmental activities are generally financed through intergovernmental assessments or other nonexchange transactions. The District does not have any activities classified as business-type activities.

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.

Certain costs, such as employee fringe benefits, property and liability insurance, among others are not allocated among the District's functions and are included in employee benefits and other fixed charges in the statement of activities. Depreciation is reported as one amount, in total, on the statement of activities. None of these costs are allocated among the respective functions.

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 and is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *revolving fund* is used to account for the District's revolving fund activities, which are established in accordance with Massachusetts General Laws.

The *Winthrop fire protection project fund* is used to account for fire protection improvements at the Winthrop Elementary School.

The *nonmajor governmental funds* consist of other special revenue and capital project funds 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 expenditures 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 fiduciary fund type *private purpose trust fund* is used to account for assets that are held for future scholarships and awards.

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

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, and machinery and equipment 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 greater than one year.

Capital assets (excluding land and construction in progress) 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.....	15-50
Machinery and equipment.....	5-20

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 net 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 has reported deferred outflows of resources related to pensions and OPEB in this category.

In addition to liabilities, the statement of net 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 has reported deferred inflows of resources related to pensions and OPEB 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 does 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.

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.

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 represents assets that have restrictions placed on them from outside parties.

Sometimes the 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 and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the 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 may include the following:

“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, the member communities.

“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.

Sometimes the District will fund outlays for a particular purpose from different components of fund balance. In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balances in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. When different components of fund balance can be used for the same purpose, it is the District’s policy to consider restricted fund balance to have been depleted first, followed by committed fund balance, and assigned fund balance. Unassigned fund balance is applied last.

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. 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.

O. 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.

P. Long-term Debt

Government-Wide Financial Statements

Long-term debt is reported as liabilities in the government-wide statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported gross of the applicable bond premium or discount. Bond issuance costs are reported as an outflow of resources in the reporting period in which the costs are incurred.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

Q. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies. Compensated absence liabilities related to governmental activities are normally paid from the funds reporting payroll and related expenditures. Compensated absences are reported in governmental funds only if they have matured.

Government-Wide Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon maturity of the liability.

R. 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.

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 (the 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 allows for unlimited bank deposits up to one year in financial institutions that are fully collateralized or fully insured by Federal Depository Insurance or the Depository Insurance Fund. The District's policy limits unsecured deposits to no more than 5% of an institution's assets and no more than 25% of the District's cash may be comprised of unsecured bank deposits. This percentage may be increased for no more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the District in the near future. These payments may be for such items as debt service payment or regional school assessments. Their credit worthiness will be tracked by Veribanc, or other bank credit worthiness reporting systems. They will be diversified as much as possible. CDs will be purchased for no more than one year and will be reviewed frequently.

At year-end, the carrying amount of deposits totaled \$6,753,394 and the bank balance totaled \$7,154,888. Of the bank balance, \$5,366,540 was covered by Federal Depository Insurance, and \$1,788,348 was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the government will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The District's policy to mitigate custodial credit risk requires review of the financial institution's financial statements and the background of the brokerage house and broker/dealer (Advisor). The intent of this qualification is to limit the District's exposure to only those institutions with a proven financial strength, capital adequacy of the firm, and overall affirmative reputation in the municipal industry. Further, all securities not held directly by the District will be held in the District's name and tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

At year-end, the District's investments totaled \$436,220, of which \$69,950 and \$346,434 are invested in equity securities and debt securities, respectively, which are subject to custodial credit risk.

Interest Rate Risk

The District's policy to mitigate interest rate risk is to manage the duration of investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of June 30, 2020, the District had the following investments and maturities:

Investment Type	Fair value	Maturities		
		Under 1 Year	1-5 Years	6-10 Years
<u>Debt securities:</u>				
U.S. treasury bonds.....	\$ 101,342	\$ -	\$ -	\$ 101,342
Government sponsored enterprises.....	172,162	-	115,050	57,112
Corporate bonds.....	72,930	50,756	22,174	-
Total debt securities.....	346,434	\$ 50,756	\$ 137,224	\$ 158,454
<u>Other investments:</u>				
Equity securities.....	69,950			
Money market mutual funds.....	19,836			
Total investments.....	\$ 436,220			

Credit Risk

The District’s policy to mitigate credit risk allows for unlimited investments in United States Treasury and United States Government Agency obligations. Regarding other investments, the District will only purchase investment grade securities with a high concentration in securities rated A or better. The District may invest in the Massachusetts Municipal Depository Trust (MMDT) with no limit to the amount of funds placed in the fund.

As of June 30, 2020, the District’s investments in corporate bonds included \$25,349 in AA rated securities, \$22,174 in A+ rated securities, and \$25,407 in BBB+ rated securities. The District’s investments in U.S. Treasury Bonds and government sponsored enterprises included \$101,342 and \$172,162, respectively, in AA+ rated securities.

Concentration of Credit Risk

The District will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The District’s investments in corporate bonds for Citigroup and Wells Fargo each exceeded 5% of the District’s total investments. Investments in government agencies, government sponsored enterprises, mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

Fair Value of Investments

The District holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the District’s mission, the District determines that the disclosures related to these investments only need to be disaggregated by major type. The District chooses a tabular format for disclosing the levels within the fair value hierarchy.

The following table presents financial assets at June 30, 2020, for which the District measures fair value on a recurring basis, by level, within the fair value hierarchy:

Investment Type	June 30, 2020	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured at fair value:				
<u>Debt securities:</u>				
U.S. treasury bonds.....	\$ 101,342	\$ 101,342	\$ -	\$ -
Government sponsored enterprises.....	172,162	172,162	-	-
Corporate bonds.....	72,930	-	72,930	-
Total debt securities.....	346,434	273,504	72,930	-
<u>Other investments:</u>				
Equity securities.....	69,950	69,950	-	-
Money market mutual funds.....	19,836	19,836	-	-
Total other investments.....	89,786	89,786	-	-
Total investments measured at fair value.....	\$ 436,220	\$ 363,290	\$ 72,930	\$ -

U.S. Treasury bonds, government sponsored enterprises, equity securities, and money market mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Corporate bonds classified in Level 2 of the hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

NOTE 3 – RECEIVABLES

At June 30, 2020, the District did not have any receivables.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Construction in progress.....	\$ 378,341	\$ -	\$ (378,341)	\$ -
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	38,884,119	-	-	38,884,119
Machinery and equipment.....	1,774,393	897,583	-	2,671,976
Total capital assets being depreciated.....	40,658,512	897,583	-	41,556,095
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(19,424,171)	(1,104,517)	-	(20,528,688)
Machinery and equipment.....	(1,099,740)	(197,885)	-	(1,297,625)
Total accumulated depreciation.....	(20,523,911)	(1,302,402)	-	(21,826,313)
Total capital assets being depreciated, net.....	20,134,601	(404,819)	-	19,729,782
Total governmental activities capital assets, net.....	\$ 20,512,942	\$ (404,819)	\$ (378,341)	\$ 19,729,782

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

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2020, included a \$125,000 transfer from the general fund to the Winthrop fire protection project fund, a \$227,109 transfer from the general fund to the revolving fund for athletic programs, and a \$2,203 transfer to the general fund from the capital projects fund for debt service.

NOTE 6 – 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.

Details related to the short-term debt activity for the year ended June 30, 2020, is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2019	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2020
BAN	Winthrop School Fire Suppression System..	2.00%	01/22/21	\$ 850,000	\$ 715,000	\$ (850,000)	\$ 715,000

NOTE 7 – 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 general purpose of the debt must be given to the Board of Selectmen in each of the member communities comprising the District.

At June 30, 2020, the District’s General obligation bonds outstanding are as follows:

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2020
Cutler School roof and repair projects.....	2030	\$ 1,582,000	2.0 - 3.5	\$ 1,085,000
Buker/Winthrop heating and roof projects.....	2032	1,531,000	2.0 - 3.0	<u>1,260,000</u>
Total Bonds Payable, net.....				\$ <u>2,345,000</u>

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

Year	Principal	Interest	Total
2021.....	\$ 190,000	\$ 58,251	\$ 248,251
2022.....	190,000	53,501	243,501
2023.....	195,000	48,676	243,676
2024.....	195,000	43,776	238,776
2025.....	210,000	38,701	248,701
2026.....	215,000	33,376	248,376
2027.....	220,000	27,376	247,376
2028.....	230,000	20,876	250,876
2029.....	230,000	14,476	244,476
2030.....	240,000	7,938	247,938
2031.....	115,000	3,450	118,450
2032.....	<u>115,000</u>	<u>1,150</u>	<u>116,150</u>
Total.....	\$ <u>2,345,000</u>	\$ <u>351,547</u>	\$ <u>2,696,547</u>

The District is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2020, the District did not have any authorized and unissued debt.

Changes in long-term liabilities

During the year ended June 30, 2020, the following changes occurred in long-term liabilities:

	Beginning Balance (As Restated)	Bonds and Notes Redeemed	Other Increases	Other Decreases	Ending Balance	Due Within One Year
Governmental Activities:						
Long-term bonds payable.....	\$ 2,530,000	\$ (185,000)	\$ -	\$ -	\$ 2,345,000	\$ 190,000
Compensated absences.....	423,547	-	146,692	(132,328)	437,911	143,825
Net pension liability.....	11,482,455	-	950,343	(976,559)	11,456,239	-
Total OPEB liability.....	38,831,867	-	10,836,260	(1,080,002)	48,588,125	-
Total governmental activity long-term liabilities, as restated..	\$ 53,267,869	\$ (185,000)	\$ 11,933,295	\$ (2,188,889)	\$ 62,827,275	\$ 333,825

NOTE 8 – 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 can only be used for specific purposes pursuant to self-imposed constraints of the government from its highest level of decision making authority, the member communities.
- 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.

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.

The District has classified its fund balances within the following hierarchy:

	General	Revolving Funds	Winthrop Fire Protection Project	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:					
Restricted for:					
Revolving Funds.....	\$ -	\$ 1,184,048	\$ -	\$ -	\$ 1,184,048
Receipts reserved for appropriation.....	-	-	-	4,075	4,075
Athletic/ Extracurricular Revolving Funds.....	-	-	-	142,150	142,150
Gifts and Grants.....	-	-	-	38,236	38,236
Capital Projects.....	-	-	-	27,275	27,275
Assigned to:					
Encumbrances:					
Administration.....	43,075	-	-	-	43,075
Instructional services.....	157,420	-	-	-	157,420
Other student services.....	100,660	-	-	-	100,660
Operation and maintenance.....	34,445	-	-	-	34,445
Employee benefits and other fixed charges..	59,725	-	-	-	59,725
Programs with other school districts.....	7,867	-	-	-	7,867
Subsequent years' expenditures.....	217,329	-	-	-	217,329
Unassigned.....	1,216,705	-	(714,223)	-	502,482
Total Fund Balances.....	\$ 1,837,226	\$ 1,184,048	\$ (714,223)	\$ 211,736	\$ 2,518,787

NOTE 9 – 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 10 – 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 46 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 MTRS, a cost-sharing multi-employer defined benefit pension 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, 2019. The District's portion of the collective pension expense, contributed by the Commonwealth, of \$7,063,728 is reported in the general fund as intergovernmental revenue and employee benefits in the current fiscal year. The portion of the Commonwealth's collective net pension liability associated with the District is \$58,249,212 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 actuarially 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, 2019 and totaled \$976,599 which was 24.22% 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, 2020, the District reported a liability of \$11,456,239 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020. 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, 2019, the District's proportion was 2.72% which equaled its proportion as of December 31, 2018.

Pension Expense

For the year ended June 30, 2020, the District recognized pension expense of \$1,337,888.

The balances of deferred outflows (inflows) at June 30, 2020, consist of the following:

Deferred Category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Differences between expected and actual experience.....	\$ 1,572	\$ (54,445)	\$ (52,873)
Difference between projected and actual earnings.....	-	(427,143)	(427,143)
Changes of assumptions.....	1,145,022	-	1,145,022
Changes in proportion and proportionate share of contributions...	13,253	(247,461)	(234,208)
Total deferred outflows/(inflows) of resources.....	\$ 1,159,847	\$ (729,049)	\$ 430,798

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

Year ended June 30:

2021.....	\$ 163,486
2022.....	89,952
2023.....	187,194
2024.....	(9,834)
Total.....	\$ 430,798

Actuarial Assumptions

The total pension liability in the January 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2019:

Valuation date.....	January 1, 2020
Salary increases.....	Based on years of service, ranging from 7.50% at 0 years of service decreasing to 3.75% after 5 years of service.
Net investment return/discount rate.....	7.3% (previously 7.50%)
Wage inflation rate.....	2.75%
Cost of living adjustments.....	2.0% of the first \$14,000 for fiscal 2021 and 3% of the first \$14,000 thereafter.
Mortality Rates:	
Pre-Retirement.....	RP-2014 Employee Mortality Table projected generationally with Scale MP-2019.
Healthy Retiree.....	RP-2014 Healthy Annuitant Mortality Table projected generationally with Scale MP-2019.
Disabled Retiree.....	RP-2014 Healthy Annuitant Mortality Table, set forward two years projected generationally with Scale MP-2019.

Investment policy

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

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 returns 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, adding expected inflation and subtracting expected investment expenses and risk margin.

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expense, used in the derivation of the long-term investment rate of return assumption as of December 31, 2019, are summarized in the following table:

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity.....	21.00%	6.15%
International developed markets equity.....	13.00%	6.78%
International emerging markets equity.....	5.00%	8.65%
Core fixed income.....	15.00%	1.11%
High-yield fixed income.....	8.00%	3.51%
Real estate.....	10.00%	4.33%
Commodities.....	4.00%	4.13%
Hedge fund, GTAA, Risk parity.....	11.00%	3.19%
Private equity.....	13.00%	9.99%
Total.....	100.00%	

Rate of return

For the year ended December 31, 2019, the annual money-weighted rate of return on pension plan investments was 16.13%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested, measured monthly.

Discount rate

The discount rate used to measure the total pension liability was 7.30% as of December 31, 2019 and 7.50% as of December 31, 2018. 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 rates. For this purpose, only employer contributions that are intended to fund benefits for the current plan members and their beneficiaries are included. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments for 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 as of both December 31, 2019 and December 31, 2018.

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 7.30%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.30%) or 1-percentage-point higher (8.30%) than the current rate:

	1% Decrease (6.30%)	Current Discount (7.30%)	1% Increase (8.30%)
The District's proportionate share of the net pension liability.....	\$ 14,406,925	\$ 11,456,239	\$ 8,976,003

Changes of Assumptions:

- The net investment return assumption was lowered from 7.50% to 7.30%.
- The mortality assumption for non-disabled participants was changed from the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale BB to the RP-2014 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale MP-2019.
- The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table set forward two years projected generationally using Scale BB to the RP-2014 Healthy Annuitant Mortality Table set forward two years projected generationally using Scale MP-2019.
- The allowance for net 3(8)(C) payments was changed from a term cost added to the service cost to an estimated liability.

Changes in Plan Provisions:

- Effective January 1, 2020 the Board approved a 2.0% COLA increase on the first \$14,000 of a retirement allowance for fiscal 2021.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The Hamilton-Wenham Regional School District administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance and life insurance benefits 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 also negotiated between the District and union representatives. The required contribution is based on a pay-as-you-go financing requirement. No assets have been accumulated in a trust. The District contributes 60 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 40 percent of their premium costs.

Employees Covered by Benefit Terms – The following table represents the Plan’s membership as of July 1, 2019, the actuarial valuation date:

Active members.....	316
Inactive employees or beneficiaries currently receiving benefits.....	207
	523
Total.....	523

Significant Actuarial Methods and Assumptions – The total OPEB liability in the June 30, 2019, actuarial valuation was determined by using the following actuarial assumptions, applied to all periods included in the measurement, that was updated to June 30, 2020, to be in accordance with GASB Statement #75:

Valuation date.....	July 1, 2019
Actuarial cost method.....	Individual Entry Age Normal Cost Method.
Asset-valuation method.....	Market value of assets as of the measurement date, June 30, 2020.
Single equivalent discount rate.....	2.75%, net of OPEB plan investment expense, including inflation.
Inflation rate.....	2.50% as of June 30, 2020 and for future periods.
Municipal bond rate.....	2.66% as of June 30, 2020 (source: S&P Municipal Bond 20-Year High Grade Index-SAPIHG).
Salary increases.....	3.00% annually as of June 30, 2020 and for future periods.
Healthcare cost trend rate.....	4.50% annually.
Pre-Retirement mortality.....	General: RP-2014 Mortality Table for Blue Collar Employees projected generationally with scale MP-2016 for males and females. Teachers: RP-2014 Mortality Table for White Collar Employees projected generationally with scale MP-2016 for males and females.
Post-Retirement mortality.....	General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females. Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females.
Disbled mortality.....	General: RP-2014 Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females, set forward 1 year. Teachers: RP-2014 Mortality Table for White Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females.

Discount rate – The discount rate used to measure the Total OPEB liability was 2.75% as of June 30, 2020 and 3.25% as of June 30, 2019. The projection of cash flows used to determine the discount rate assumed that

contributions will be made in accordance with the Plan’s funding policy. Because there is no funding policy, the discount rate was determined by a yield or index rate for 20 year, tax exempt general obligation municipal bonds with an average rate of AA/Aa or higher, which was based on the S&P Municipal Bond 20 – Year High Grade Index ("SAPIHG") as of June 30, 2020.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2019, as restated.....	\$ <u>38,831,867</u>
Changes for the year:	
Service cost.....	1,950,280
Interest.....	1,308,010
Differences between expected and actual experience.....	(727,454)
Changes in assumptions and other inputs.....	8,305,424
Benefit payments.....	<u>(1,080,002)</u>
Net change.....	<u>9,756,258</u>
Balance at June 30, 2020.....	\$ <u><u>48,588,125</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following table presents the total other postemployment benefits liability, calculated using the discount rate of 2.75%, as well as what the total other postemployment benefit liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (1.75%)	Current Discount Rate (2.75%)	1% Increase (3.75%)
Total OPEB liability.....	\$ <u>57,894,342</u>	\$ <u>48,588,125</u>	\$ <u>41,717,787</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following table presents the total other postemployment benefits liability, calculated using the current healthcare trend rate of 4.50%, as well as what the total other postemployment benefits liability would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher:

	1% Decrease (3.50%)	Current Trend (4.50%)	1% Increase (5.50%)
Total OPEB liability.....	\$ <u>40,601,140</u>	\$ <u>48,588,125</u>	\$ <u>59,070,817</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2020, the District recognized OPEB expense of \$5,887,610. At June 30, 2020, the District reported deferred outflows and deferred inflows of related to OPEB from the following sources:

Deferred Category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Differences between expected and actual experience.....	\$ 2,227,451	\$ (581,963)	\$ 1,645,488
Changes of assumptions.....	6,644,339	-	6,644,339
Total deferred outflows/(inflows) of resources.....	\$ 8,871,790	\$ (581,963)	\$ 8,289,827

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

Year ended June 30:

2021.....	\$ 2,629,320
2022.....	2,629,319
2023.....	1,515,594
2024.....	1,515,594
Total.....	\$ 8,289,827

Changes of Assumptions

- Due to the GASB 75 standards the discount rate has been changed from 3.25% to 2.75%.
- Based on recommendations by PERAC, the mortality table has been updated from the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 to the RP-2014 Mortality Table projected generationally with scale MP-2016 for males and females.
- The expected long-term medical trend has been updated to 4.50%.
- Based on recent research by the Society of Actuaries, we have updated the assumption for morbidity or age-related costs of medical care.

Changes in Plan Provisions – None.

NOTE 12 – CONTINGENCIES

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, 2020, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2020.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 28, 2020, which is the date the financial statements were available to be issued.

NOTE 14 – COVID-19

On March 10, 2020, the Massachusetts Governor declared a state of emergency in response to the coronavirus outbreak. The World Health Organization officially declared the novel Coronavirus (COVID-19) a pandemic the following day. In an attempt to slow the spread of COVID-19, governments issued various stay at home orders that caused global economic shutdowns and substantial financial market impact. Starting in March 2020, the Governor continued to issue orders allowing governments to operate and carry out essential functions safely. These included modifying the state's Open Meeting Law, issuing a stay-at-home order, and introducing a phased approach to reopening State businesses. Although the School was closed to students for a period of time, most employees continued to perform their daily duties and maintain the School's operations.

On March 27, 2020, the United States Federal Government established the Coronavirus Aid, Relief and Economic Security (CARES) Act in response to the economic downfall caused by the COVID-19 pandemic. This Act requires that the payment from these funds be used only to cover expenses that; are necessary due to the public health emergency with respect COVID-19; were not accounted for in the budget most recently approved as of March 27, 2020; and were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020. The Commonwealth and communities throughout the Commonwealth were awarded a portion of this federal funding. In addition to funding from the CARES Act, there are several other federal and state grants available.

The School has incurred unanticipated costs specifically related to the pandemic; however, the full extent of the financial impact cannot be determined as of the date of the financial statements.

NOTE 15 – RESTATEMENT OF NET POSITION PREVIOUSLY REPORTED

Beginning net position of the governmental activities has been restated as management has determined that it would be preferable to use the respective year-end as the measurement date for GASB Statement #75 to coincide with the reporting date of the financial statements. Accordingly, previously reported net position which was in a deficit position of \$24,359,274 decreased by \$2,009,451 and is in a deficit position of \$26,368,725.

NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2020, the following GASB pronouncements were implemented:

- GASB Statement #95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This pronouncement postponed the effective dates of certain provisions in GASB Statements and Implementation Guides that first became effective or are scheduled to be effective for periods beginning after June 15, 2018 or later.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in 2021.

- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2022.
- The GASB issued Statement #89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented in 2022.
- The GASB issued Statement #90, *Majority Equity Interests – an amendment of GASB Statements #14 and #61*, which is required to be implemented in 2021.
- The GASB issued Statement #91, *Conduit Debt Obligations*, which is required to be implemented in 2023.
- The GASB issued Statement #92, *Omnibus 2020*, which is required to be implemented in 2022.
- The GASB issued Statement #93, *Replacement of Interbank Offered Rates*, which is required to be implemented in 2022.
- The GASB issued Statement #94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which is implemented in 2023.
- The GASB issued Statement #96, *Subscription-Based Information Technology Arrangements*, which is required to be implemented in 2023.
- The GASB issued Statement #97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, in which certain paragraphs are required to be implemented in 2021 and 2022.

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, 2020

	Budgeted Amounts			
	Amounts	Current Year		
	Carried Forward From Prior Year	Initial Budget	Original Budget	Final Budget
REVENUES:				
Member town assessments.....	\$ -	\$ 29,573,119	\$ 29,573,119	\$ 29,573,119
Intergovernmental.....	-	4,220,622	4,220,622	4,220,622
Investment income.....	-	4,000	4,000	4,000
Miscellaneous revenue.....	-	-	-	-
TOTAL REVENUES.....	-	33,797,741	33,797,741	33,797,741
EXPENDITURES:				
Current:				
District administration.....	38,700	1,208,488	1,247,188	1,037,277
Instructional.....	52,995	20,160,610	20,213,605	19,461,703
Other student services.....	40	2,367,865	2,367,905	2,246,352
Operation and maintenance.....	-	2,187,838	2,187,838	2,071,921
Employee benefits and other fixed charges.....	28,237	4,486,189	4,514,426	4,618,426
Programs with other school districts (tuitions).....	62,130	2,908,666	2,970,796	4,066,079
Debt service:				
Debt service principal.....	-	185,000	185,000	185,000
Interest.....	-	90,575	90,575	90,575
TOTAL EXPENDITURES.....	182,102	33,595,231	33,777,333	33,777,333
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(182,102)	202,510	20,408	20,408
OTHER FINANCING SOURCES (USES):				
Use of prior year reserves.....	182,102	-	182,102	182,102
Use of excess and deficiency.....	-	147,396	147,396	147,396
Transfers in.....	-	2,203	2,203	2,203
Transfers out.....	-	(352,109)	(352,109)	(352,109)
TOTAL OTHER FINANCING SOURCES (USES).....	182,102	(202,510)	(20,408)	(20,408)
NET CHANGE IN FUND BALANCE.....	-	-	-	-
FUND BALANCES AT BEGINNING OF YEAR.....	1,645,793	1,645,793	1,645,793	1,645,793
FUND BALANCES AT END OF YEAR.....	\$ 1,645,793	\$ 1,645,793	\$ 1,645,793	\$ 1,645,793

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$	29,571,568	\$ -	\$ (1,551)
	4,128,019	-	(92,603)
	19,661	-	15,661
	<u>3,372</u>	<u>-</u>	<u>3,372</u>
	<u>33,722,620</u>	<u>-</u>	<u>(75,121)</u>
	985,866	43,075	8,336
	19,183,075	157,420	121,208
	2,145,692	100,660	-
	2,037,476	34,445	-
	4,500,984	59,725	57,717
	4,056,928	7,867	1,284
	185,000	-	-
	<u>86,260</u>	<u>-</u>	<u>4,315</u>
	<u>33,181,281</u>	<u>403,192</u>	<u>192,860</u>
	<u>541,339</u>	<u>(403,192)</u>	<u>117,739</u>
	-	-	(182,102)
	-	-	(147,396)
	2,203	-	-
	<u>(352,109)</u>	<u>-</u>	<u>-</u>
	<u>(349,906)</u>	<u>-</u>	<u>(329,498)</u>
	191,433	(403,192)	(211,759)
	<u>1,645,793</u>	<u>-</u>	<u>-</u>
\$	<u><u>1,837,226</u></u>	<u><u>(403,192)</u></u>	<u><u>(211,759)</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**

Year	Proportion of the net pension liability (asset)	Proportionate share of the net pension liability (asset)	Covered payroll	Net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
December 31, 2019.....	2.72%	\$ 11,456,239	\$ 3,953,177	289.80%	55.46%
December 31, 2018.....	2.72%	11,482,455	3,858,732	297.57%	51.89%
December 31, 2017.....	2.78%	10,477,680	3,709,896	282.43%	55.40%
December 31, 2016.....	2.84%	10,943,949	3,971,144	275.59%	51.12%
December 31, 2015.....	2.84%	10,306,211	3,656,348	281.87%	51.01%
December 31, 2014.....	2.75%	9,315,057	3,502,758	265.93%	52.27%

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 DISTRICT'S CONTRIBUTIONS
ESSEX REGIONAL RETIREMENT SYSTEM

Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
June 30, 2020.....	\$ 976,599	\$ (976,599)	\$ -	\$ 4,032,241	24.22%
June 30, 2019.....	908,291	(908,291)	-	3,935,907	23.08%
June 30, 2018.....	866,990	(866,990)	-	3,784,094	22.91%
June 30, 2017.....	823,009	(823,009)	-	4,050,567	20.32%
June 30, 2016.....	779,283	(779,283)	-	3,729,475	20.90%
June 30, 2015.....	704,356	(704,356)	-	3,572,813	19.71%

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**

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. Therefore, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the associated collective net pension liability; the portion of the collective pension expense as both a revenue and pension expense recognized; 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 Associated Net Pension Liability</u>	<u>Expense and Revenue Recognized for the Commonwealth's Support</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Liability</u>
2020.....	\$ 58,249,212	\$ 7,063,728	53.95%
2019.....	53,814,444	5,453,315	54.84%
2018.....	52,560,042	5,485,845	54.25%
2017.....	51,438,198	5,247,033	52.73%
2016.....	47,483,472	3,851,332	55.38%
2015.....	37,616,788	2,613,419	61.64%

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.

Other Postemployment Benefit Plan Schedules

The Schedule of Changes in the District's Total Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability.

**SCHEDULE OF CHANGES IN THE
DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFIT PLAN**

	June 30, 2018	June 30, 2019	June 30, 2020
Total OPEB Liability			
Service Cost.....	\$ 1,375,144	\$ 1,565,986	\$ 1,950,280
Interest.....	936,777	1,172,841	1,308,010
Differences between expected and actual experience.....	5,568,629	-	(727,454)
Changes of assumptions.....	-	-	8,305,424
Benefit payments.....	<u>(748,115)</u>	<u>(868,691)</u>	<u>(1,080,002)</u>
Net change in total OPEB liability.....	7,132,435	1,870,136	9,756,258
Total OPEB liability - beginning.....	<u>29,829,296</u>	<u>36,961,731</u>	<u>38,831,867</u>
Total OPEB liability - ending (a).....	<u>\$ 36,961,731</u>	<u>\$ 38,831,867</u>	<u>\$ 48,588,125</u>
Covered-employee payroll.....	\$ 18,795,232	\$ 19,359,089	\$ 20,667,883
Total OPEB liability as a percentage of covered-employee payroll.....	196.65%	200.59%	235.09%

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.

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY1. 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 initial 2020 approved budget for the general fund authorized \$33.9 million in appropriations. The District did not approve supplemental appropriations during the current year.

The District's accounting office has the responsibility to ensure that budgetary control is maintained in accordance with the legal level of spending approved by the member communities and as amended by the School Committee. 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, 2020, is presented below:

Net change in fund balance - budgetary basis.....	\$	191,433
<u>Basis of accounting differences:</u>		
Recognition of revenue for on-behalf payments.....		7,063,728
Recognition of expenditures for on-behalf payments.....		<u>(7,063,728)</u>
Net change in fund balance - GAAP basis.....	\$	<u><u>191,433</u></u>

NOTE B – PENSION PLANA. 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 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 the District's covered payroll.

B. 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.

C. 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 revenue and pension expense recognized by the District; and the Plan's fiduciary net position as a percentage of the total liability.

D. Changes of Assumptions

- The net investment return assumption was lowered from 7.50% to 7.30%.
- The mortality assumption for non-disabled participants was changed from the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale BB to the RP-2014 Employee and Healthy Annuitant Mortality Tables projected generationally using Scale MP-2019.
- The mortality assumption for disabled participants was changed from the RP-2000 Healthy Annuitant Mortality Table set forward two years projected generationally using Scale BB to the RP-2014 Healthy Annuitant Mortality Table set forward two years projected generationally using Scale MP-2019.
- The allowance for net 3(8)(C) payments was changed from a term cost added to the service cost to an estimated liability.

E. Changes in Plan Provisions

- Effective January 1, 2020 the Board approved a 2.0% COLA increase on the first \$14,000 of a retirement allowance for fiscal 2021.

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

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

The Other Postemployment Benefit Plan

A. The Schedule of Changes in the District's Total Other Postemployment Benefit Liability and Related Ratios

The Schedule of Changes in the District's Total Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability.

B. Changes of Assumptions

- Due to the GASB 75 standards the discount rate has been changed from 3.25% to 2.75%.
- Based on recommendations by PERAC, the mortality table has been updated from the RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 to the RP-2014 Mortality Table projected generationally with scale MP-2016 for males and females.
- The expected long-term medical trend has been updated to 4.50%.
- Based on recent research by the Society of Actuaries, we have updated the assumption for morbidity or age-related costs of medical care.

C. Changes in Provisions

None.