

**GATEWAY REGIONAL
SCHOOL DISTRICT**

Annual Financial Statements

For the Year Ended June 30, 2016

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Additional Offices:

Nashua, NH
Manchester, NH
Andover, MA
Ellsworth, ME

INDEPENDENT AUDITORS' REPORT

To The School Committee
Gateway Regional School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gateway Regional School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The School District's 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.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Gateway Regional School District, as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the general fund 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 management's discussion and analysis, Schedule of OPEB Funding Progress, Schedule of Proportionate Share of Net Pension Liability and Schedule of Pension Contributions 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 evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the School District's basic financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Melanson Heath

March 27, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Gateway Regional School District (the School District), we offer readers this narrative overview and analysis of the financial activities of the School District for the fiscal year ended June 30, 2016.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal 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 fiscal periods (e.g., earned but unused vacation leave).

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 financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information

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

An annual appropriated budget is adopted for the 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 statements because the resources of those funds are not available to support the School District's own programs.

Notes to financial statements. The notes provide additional information that are 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 which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$10,399,811 (i.e., net position), a change of \$1,046,908 in comparison to the (restated) prior year.
- As of the close of the current fiscal year, governmental funds reported a combined ending fund balance of \$2,323,114, a change of \$835 in comparison with the (restated) prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$681,516, a change of \$103,536 in comparison with the (restated) prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$4,655,000, a change of \$(500,000) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	<u>2016</u>	2015 (restated)
Current and other assets	\$ 2,629,830	\$ 2,516,516
Capital assets	26,257,531	27,165,417
Deferred outflows	<u>604,333</u>	<u>44,487</u>
Total Assets	29,491,694	29,726,420
Long-term liabilities outstanding	18,374,813	20,127,246
Other liabilities	322,521	216,440
Deferred inflows	<u>394,549</u>	<u>29,831</u>
Total Liabilities	19,091,883	20,373,517
Net assets:		
Invested in capital assets, net	20,373,082	18,449,826
Restricted	1,282,143	1,271,812
Unrestricted	<u>(11,255,414)</u>	<u>(10,368,735)</u>
Total Net Position	\$ <u>10,399,811</u>	\$ <u>9,352,903</u>

CHANGES IN NET POSITION

	<u>2016</u>	2015 (restated)
Revenues:		
Program revenues:		
Charges for services	\$ 326,564	\$ 272,956
Operating grants and contributions	3,075,339	3,117,416
General revenues:		
Assessments to member towns	9,004,495	9,696,861
Grants and contributions not restricted to specific programs	6,876,214	5,652,523
Investment income	4,312	4,187
Miscellaneous	<u>2,647</u>	<u>2,267</u>
Total Revenues	19,289,571	18,746,210
Expenses:		
Administration and benefits	758,614	736,829
Instruction	5,838,056	4,840,186
Other school services	2,037,875	2,583,819
Operation and maintenance	1,206,108	1,221,915
Fixed charges	5,359,821	4,508,533
Acquisition	112,085	-
Interest expense	182,187	269,277
Special education	3,519,885	3,446,770
School choice/charter	503,275	1,070,918
Unallocated depreciation	801,089	801,089
Miscellaneous	<u>-</u>	<u>95,820</u>
Total expenses	20,318,995	19,575,156
Change in net position before transfers	(1,029,424)	(828,946)
Special item	2,182,990	-
Transfers, net	<u>(106,658)</u>	<u>-</u>
Change in net position	1,046,908	(828,946)
Net position - beginning of year, as restated	<u>9,352,903</u>	<u>10,181,849</u>
Net position - end of year	\$ <u>10,399,811</u>	\$ <u>9,352,903</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$10,399,811, a change of \$1,046,908 from the prior year.

By far the largest portion of net position, \$20,373,082 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of 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.

An additional portion of net position, \$1,282,143 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(11,255,414), caused primarily by recording the unfunded OPEB and pension liabilities as described in the accompanying footnotes.

Governmental activities. Governmental activities for the year resulted in an increase in net position of \$1,046,908. Key elements of this change are as follows:

- General fund decrease of \$(53,122) which is further explained in the governmental funds section below.
- School Choice major fund revenues over expenditures of \$45,572.
- Non-major fund revenues over expenditures of \$8,385.
- Capital additions of \$38,700 were budgeted as expenses and funded through grants and appropriations. On the government-wide basis, this results in revenue being generated in excess of expenditures, since the "expenses" are actually being added to capital assets.
- Excess of depreciation expense (not budgeted for) over principal debt expense (included in the budget) of \$(446,586), amortization of bond premium of \$53,835 and loss on debt refunding of \$(44,488)
- Increase in net OPEB obligation and net pension liability of \$(863,928) neither of which is due and payable in the current period and, therefore, not reported in governmental funds.
- MSBA loan forgiveness of \$2,182,990 and decrease in remaining obligation of \$85,100.
- Other accrual adjustments of \$40,450.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$2,323,114, an increase of \$835 in comparison with the prior year. Key elements of this change are as follows:

- General fund decrease of \$(53,122) which is further explained in the governmental funds section below.
- School Choice major fund revenues over expenditures by \$45,572.
- Non-major fund revenues over expenditures by \$8,385.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$681,516, while total fund balance was \$1,031,516. 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 general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>2016</u>	<u>2015</u> <u>(Restated)</u>	<u>Change</u>	<u>% of Total 2016</u> <u>General Fund</u> <u>Expenditures</u>
Unassigned fund balance	\$ 681,516	\$ 577,980	\$ 103,536	4.3%
Total fund balance	\$ 1,031,516	\$ 1,084,638	\$ (53,122)	6.5%

The fund balance of the general fund changed by \$(53,122) during the current fiscal year. Key factors in this change are as follows:

- Actual revenues were less than the current year budget by \$(74,299).
- Expenditures were less than anticipated by \$528,330.
- Use of excess and deficiency of \$(400,000).
- Transfer to OPEB trust, authorized in the prior year of \$(106,658).
- Other adjustments of \$(495).

E. GENERAL FUND BUDGETARY HIGHLIGHTS

The state established a budget for the current year due to the District regional budget not being adopted member towns by December 2015.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets at year-end amounted to \$26,257,531 (net of accumulated depreciation), a change of \$(907,886) from the prior year. This investment in capital assets includes land, buildings and improvements and machinery and equipment.

Major capital asset events during the current fiscal year were as follows:

- Current year depreciation expense - \$(946,586).
- Purchase of various equipment - \$38,700.

Long-term debt. At the end of the current fiscal year, total long-term debt (bonds payable) outstanding was \$4,655,000, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term loans and notes can be found in the footnotes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Gateway 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:

Ms. Stephanie Fisk
Business & Finance Officer
Gateway Regional School District
12 Littleville Road
Huntington, MA 01050

GATEWAY REGIONAL SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 2,603,175
Intergovernmental receivables	20,279
Inventory	6,376
Noncurrent:	
Capital assets, net of accumulated depreciation	26,181,682
Land and construction in progress	75,849
DEFERRED OUTFLOWS OF RESOURCES	<u>604,333</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	29,491,694
LIABILITIES	
Current:	
Warrants payable	30,671
Accounts payable	77,597
Accrued payroll and withholdings	194,911
Accrued interest payable	19,342
Current portion of long-term liabilities:	
Bonds payable	505,000
Unamortized bond premium	53,835
Capital lease	49,266
MSBA obligation	85,100
Noncurrent:	
Bonds payable, net of current portion	4,150,000
Unamortized bond premium, net of current portion	430,680
Capital lease, net of current portion	17,271
MSBA obligation, net of current portion	595,700
Compensated absences	307,866
Net OPEB obligation	6,345,942
Net pension liability	5,834,153
DEFERRED INFLOWS OF RESOURCES	<u>394,549</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	19,091,883
NET POSITION	
Invested in capital assets, net of related debt	20,373,082
Restricted for:	
Grants and other statutory restrictions	1,282,143
Unrestricted	<u>(11,255,414)</u>
TOTAL NET POSITION	<u>\$ 10,399,811</u>

The accompanying notes are an integral part of these financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

		Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
Expenses		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Administration and benefits	\$ 758,614	\$ -	\$ -	\$ (758,614)
Instruction	5,838,056	30,800	495,668	(5,311,588)
Other school services	2,037,875	248,206	359,740	(1,429,929)
Operation and maintenance	1,206,108	47,558	-	(1,158,550)
Fixed charges	5,359,821	-	1,788,761	(3,571,060)
Acquisition	112,085	-	-	(112,085)
Interest expense	182,187	-	-	(182,187)
Special education	3,519,885	-	431,170	(3,088,715)
School choice/charter	503,275	-	-	(503,275)
Depreciation unallocated	801,089	-	-	(801,089)
Total Governmental Activities	<u>\$ 20,318,995</u>	<u>\$ 326,564</u>	<u>\$ 3,075,339</u>	(16,917,092)
		General Revenues:		
				9,004,495
				6,876,214
				4,312
				2,647
				15,887,668
				(1,029,424)
				2,182,990
				(106,658)
				1,046,908
		Net Assets:		
				9,352,903
				\$ 10,399,811

The accompanying notes are an integral part of these financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	<u>General</u>	<u>School Choice Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 1,330,801	\$ 608,848	\$ 663,526	\$ 2,603,175
Intergovernmental receivables	3,214	-	17,065	20,279
Inventory	-	-	6,376	6,376
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	\$ <u>1,334,015</u>	\$ <u>608,848</u>	\$ <u>686,967</u>	\$ <u>2,629,830</u>
LIABILITIES				
Liabilities:				
Warrants payable	\$ 30,671	\$ -	\$ -	\$ 30,671
Accounts payable	76,917	-	680	77,597
Accrued payroll	18,827	-	-	18,827
Payroll withholdings	176,084	-	-	176,084
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	302,499	-	680	303,179
DEFERRED INFLOWS OF RESOURCES	-	-	3,537	3,537
FUND BALANCES				
Nonspendable	-	-	6,376	6,376
Restricted	-	608,848	677,709	1,286,557
Committed	-	-	7,052	7,052
Assigned	350,000	-	-	350,000
Unassigned	681,516	-	(8,387)	673,129
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>1,031,516</u>	<u>608,848</u>	<u>682,750</u>	<u>2,323,114</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ <u>1,334,015</u>	\$ <u>608,848</u>	\$ <u>686,967</u>	\$ <u>2,629,830</u>

The accompanying notes are an integral part of these financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2016

Total Governmental Fund Balances	\$ 2,323,114
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	26,257,531
<ul style="list-style-type: none">• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.	213,321
<ul style="list-style-type: none">• In the Statement of Activities, interest is accrued on outstanding long-term debt whereas in governmental funds interest is not reported until due.	(19,342)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, compensated absences, capital leases, MSBA obligation, other post employment benefits and net pension liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(17,890,298)
<ul style="list-style-type: none">• As noted above, bonds payable are not reported in the governmental funds. Similarly, bond premium received in connection with a bond issuance is deferred and amortized over the life of the bond.	<u>(484,515)</u>
Net Position of Governmental Activities	<u>\$ 10,399,811</u>

The accompanying notes are an integral part of these financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>School Choice Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Assessments to member towns	\$ 9,004,495	\$ -	\$ -	\$ 9,004,495
Charges for services	-	-	326,567	326,567
Intergovernmental	6,876,214	309,353	977,225	8,162,792
Investment income	4,309	-	-	4,309
Miscellaneous	2,647	-	-	2,647
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	15,887,665	309,353	1,303,792	17,500,810
Expenditures:				
Current:				
Administration and benefits	740,383	-	-	740,383
Instruction	5,343,057	263,781	211,549	5,818,387
Other school services	1,416,887	-	620,988	2,037,875
Operation and maintenance	1,142,013	-	53,005	1,195,018
Fixed charges	2,683,266	-	-	2,683,266
Acquisition	200,832	-	-	200,832
Special education	3,110,718	-	409,167	3,519,885
School choice/charter	503,275	-	-	503,275
Debt service	694,396	-	-	694,396
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	15,834,827	263,781	1,294,709	17,393,317
Excess (deficiency) of revenues over expenditures	52,838	45,572	9,083	107,493
Other Financing Sources (Uses):				
Transfers in	698	-	-	698
Transfers out	(106,658)	-	(698)	(107,356)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses):	(105,960)	-	(698)	(106,658)
Change in fund balance	(53,122)	45,572	8,385	835
Fund Equity, at Beginning of Year, as restated and reclassified	<hr/> 1,084,638	<hr/> 563,276	<hr/> 674,365	<hr/> 2,322,279
Fund Equity, at End of Year	<u>\$ 1,031,516</u>	<u>\$ 608,848</u>	<u>\$ 682,750</u>	<u>\$ 2,323,114</u>

The accompanying notes are an integral part of these financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2016

Net Changes in Fund Balances - Total Governmental Funds	\$ 835																								
<ul style="list-style-type: none"> 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: <table> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">38,700</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(946,586)</td> </tr> </table> The issuance of long-term debt (e.g. bonds and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td>Repayment of debt</td> <td style="text-align: right;">500,000</td> </tr> <tr> <td>Amortization of bond premium</td> <td style="text-align: right;">53,835</td> </tr> <tr> <td>Amortization of loss on debt refunding</td> <td style="text-align: right;">(44,488)</td> </tr> </table> In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due <table> <tr> <td></td> <td style="text-align: right;">2,862</td> </tr> </table> Some expenses reported in the statement of activities, such as compensated absences, capital leases, other post employment benefits, Massachusetts School Building Authority obligation, and net pension liability, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table> <tr> <td>Change in compensated absences</td> <td style="text-align: right;">(23,866)</td> </tr> <tr> <td>Change in capital leases</td> <td style="text-align: right;">61,454</td> </tr> <tr> <td>Change in net OPEB obligation</td> <td style="text-align: right;">(746,871)</td> </tr> <tr> <td>MSBA loan forgiveness</td> <td style="text-align: right;">2,182,990</td> </tr> <tr> <td>Change in MSBA obligation</td> <td style="text-align: right;">85,100</td> </tr> <tr> <td>Change in net pension liability, net of deferrals</td> <td style="text-align: right;"><u>(117,057)</u></td> </tr> </table> 		Capital outlay purchases	38,700	Depreciation	(946,586)	Repayment of debt	500,000	Amortization of bond premium	53,835	Amortization of loss on debt refunding	(44,488)		2,862	Change in compensated absences	(23,866)	Change in capital leases	61,454	Change in net OPEB obligation	(746,871)	MSBA loan forgiveness	2,182,990	Change in MSBA obligation	85,100	Change in net pension liability, net of deferrals	<u>(117,057)</u>
Capital outlay purchases	38,700																								
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Change in MSBA obligation	85,100																								
Change in net pension liability, net of deferrals	<u>(117,057)</u>																								
Change in Net Position of Governmental Activities	\$ <u>1,046,908</u>																								

The accompanying notes are an integral part of these financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Assessments to member towns	\$ 9,048,472	\$ 9,004,495	\$ 9,004,495	\$ -
Tuition				-
Intergovernmental	6,321,861	6,321,861	6,246,214	(75,647)
Mitigation funding from the state	630,000	630,000	630,000	-
Investment income	3,108	3,108	4,309	1,201
Miscellaneous	2,500	2,500	2,647	147
Other uses	400,698	400,698	400,698	-
Total Revenues and Other Sources	16,406,639	16,362,662	16,288,363	(74,299)
Expenditures and Other Uses:				
Administration and benefits	730,094	751,540	740,383	11,157
Instruction	5,616,113	5,439,758	5,343,057	96,701
Other school services	1,233,449	1,450,648	1,416,392	34,256
Operation and maintenance	1,284,285	1,233,039	1,142,013	91,026
Fixed charges	2,734,064	2,766,279	2,683,266	83,013
Acquisition	468,580	226,025	200,832	25,193
Debt service	748,782	694,402	694,396	6
Special education	3,157,130	3,259,971	3,110,718	149,253
School choice/charter	434,142	541,000	503,275	37,725
Total Expenditures and Other Uses	16,406,639	16,362,662	15,834,332	528,330
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 454,031	\$ 454,031

The accompanying notes are an integral part of these financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2016

	<u>Private Purpose Trust Funds</u>	<u>OPEB Trust Fund</u>	<u>Agency Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 14,990	\$ -	\$ 45,459
Investments	<u>-</u>	<u>110,248</u>	<u>-</u>
Total Assets	14,990	110,248	45,459
<u>LIABILITIES AND NET ASSETS</u>			
Student activity funds	<u>-</u>	<u>-</u>	<u>45,459</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>45,459</u>
<u>NET POSITION</u>			
Total net position held in trust	<u>\$ 14,990</u>	<u>\$ 110,248</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>Private Purpose Trust Funds</u>	<u>OPEB Trust Fund</u>
Additions:		
Investment income	\$ 2	\$ 3,590
Contributions	<u>14,637</u>	<u>-</u>
Total additions	<u>14,639</u>	<u>3,590</u>
Net change, before transfers	14,639	3,590
Transfer in	<u>-</u>	<u>106,658</u>
Net change, after transfers	14,639	110,248
Net position:		
Beginning of year	<u>351</u>	<u>-</u>
End of year	<u>\$ 14,990</u>	<u>\$ 110,248</u>

The accompanying notes are an integral part of these financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Gateway Regional School District (the School District) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected School Committee. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2016, it was determined that no entities met the required GASB-39 criteria of component units.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

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

Fund Financial Statements

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

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

Government-Wide Financial Statements

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

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include member assessments.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Typically, revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *School Choice Fund* is used to account for revenue from other communities whose students choose to attend the Gateway Regional School District. The proceeds are used at the discretion of the School Committee to subsidize the general fund operating budget.

The *private-purpose trust fund* is used to account for trust arrangements, other than those that would be reported in a permanent fund, under which principal and investment income exclusively benefit individuals, private

organizations or other governments. The School District's private-purpose trust fund is used to account for scholarship funds.

The *OPEB trust fund* accumulates resources for other post-employment retiree benefits for qualified employees.

The *agency funds* account for fiduciary assets held by the School District in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the general fund. Certain special revenue and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type is included under investment income.

E. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

F. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the OPEB trust fund consist of mutual funds invested in a public agency retirement services account. Investments are carried at market value.

G. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	50
Vehicles, equipment and furnishings	5 – 10

H. Compensated Absences

It is the School District’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The School District reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The School District's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e. inventory or prepaid items) or can never be spent (i.e. perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., School Committee).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (excess and deficiency) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the School District uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 fiscal year. Actual results could vary from estimates that were used.

2. **Stewardship, Compliance and Accountability**

A. Budgetary Information

The School Committee annually determines the amount to be raised (after deducting the amount of anticipated revenue the School District expects to receive) to maintain and operate the School District during the next fiscal year. The School District then calculates the assessments to each Town based on its approved budget and seeks an appropriation in the amount of that assessment from each Town's annual town meeting. After assessments are appropriated by each Town that are consistent with the School Committee's budget (either its initial budget or a budget revised to be consistent with the Town's appropriations), the School District Treasurer certifies the assessments to the treasurers of each town.

Formal budgetary integration is employed as a management control device during the year for the general fund. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The general fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance

with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 15,887,665	\$ 15,834,827
Other financing sources/uses	698	106,658
Reverse transfer authorized in the prior year	-	(106,658)
Reverse GAAP accruals	-	(495)
Recognize use of fund balance (E&D) as funding source	<u>400,000</u>	<u>-</u>
Budgetary basis	<u>\$ 16,288,363</u>	<u>\$ 15,834,332</u>

D. Assessments of Member Towns

Most capital and operating costs of the School District in excess of each town's net minimum contribution are apportioned to the member towns on the basis of their respective pupil enrollments in the School District on October 1 of the preceding year. Certain costs, such as transportation and debt service, are outside of the net school spending requirements established by the Commonwealth. These costs are apportioned to the member towns based on either the above percentage or on a member-specific basis. For the year ended June 30, 2016, the assessments were calculated as follows:

	<u>Minimum Contribution</u>	<u>Contribution Outside Net Sch. Spending</u>	<u>Total Assessments</u>
Blandford	\$ 1,107,243	\$ 495,776	\$ 1,603,019
Chester	830,684	632,305	1,462,989
Huntington	1,484,445	923,306	2,407,751
Middlefield	353,575	140,103	493,678
Montgomery	713,926	301,764	1,015,690
Russell	<u>1,076,505</u>	<u>944,863</u>	<u>2,021,368</u>
Total	<u>\$ 5,566,378</u>	<u>\$ 3,438,117</u>	<u>\$ 9,004,495</u>

Effective July 1, 2015, in accordance with Chapter 97 of the Acts of 2014, the Town of Worthington withdrew from the Gateway Regional School District and established its own school district.

E. Deficit Fund Equity

The following fund had a deficit as of June 30, 2016:

Food service revolving	\$(8,387)
------------------------	-----------

The deficit in this fund is expected to be eliminated through future departmental revenues.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. Massachusetts General Law Chapter 44, section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The School District manages custodial credit risk by the diversification and choice of depository.

As of June 30, 2016, none of the School District's bank balance of \$3,112,229 was exposed to custodial credit risk as uninsured, uncollateralized, and/or collateral held by pledging bank's trust department not in the School District's name.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the School District's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

All of the School District's investments are comprised of mutual funds, which are exempt from credit risk disclosure.

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or

collateral securities that are in the possession of another party. The School District does not have policies for custodial credit risk.

All of the School District's investments are comprised of mutual funds, which are exempt from custodial credit risk disclosure.

C. Concentration of Credit Risk

The School District places no limit on the amount the School District may invest in any one issuer.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the School District's investments to market interest rate fluctuations is not applicable as all of the School District's investments are immediately liquid.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The School District does not have policies for foreign currency risk.

F. Fair Value

The School District categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 Fair Value Measurement and Application (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The School District has the following fair value measurements as of June 30, 2016:

<u>Description</u>	<u>Amount</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted prices in active markets for identical (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:				
Mutual funds	\$ 110,248	\$ 110,248	\$ -	\$ -

5. Intergovernmental Receivables

The balance reported represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2016.

6. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 38,741,947	\$ -	\$ -	\$ 38,741,947
Machinery, equipment, and furnishings	4,787,217	38,700	-	4,825,917
Total capital assets, being depreciated	43,529,164	38,700	-	43,567,864
Less accumulated depreciation for:				
Buildings and improvements	(12,063,348)	(774,839)	-	(12,838,187)
Machinery, equipment, and furnishings	(4,376,248)	(171,747)	-	(4,547,995)
Total accumulated depreciation	(16,439,596)	(946,586)	-	(17,386,182)
Total capital assets, being depreciated, net	27,089,568	(907,886)	-	26,181,682
Capital assets, not being depreciated:				
Land	17,250	-	-	17,250
Construction in progress (CIP)	58,599	-	-	58,599
Total capital assets, not being depreciated	75,849	-	-	75,849
Total capital assets, net	\$ 27,165,417	\$ (907,886)	\$ -	\$ 26,257,531

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

Governmental Activities:

Administration	\$ 18,231
Instruction	112,526
Operation and maintenance	14,740
Unallocated depreciation	<u>801,089</u>
Total depreciation expense - governmental activities	<u>\$ 946,586</u>

7. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the School District that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of June 30, 2016:

	<u>Entity-wide Basis</u> <u>Governmental</u> <u>Activities</u>
Pension related:	
Net difference between projected and actual investment earnings	\$ <u>604,333</u>
Total	<u>\$ 604,333</u>

8. Warrants and Accounts Payable

Warrants payable represent 2016 expenditures paid by July 15, 2016. Accounts payable represent additional 2016 expenditures paid after July 15, 2016.

9. Long-Term Debt

A. General Obligation Debt

The School District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of June 30, 2016</u>
Bonds payable:			
School project	07/01/18	5.25%	\$ 180,000
FY10 refunding bonds	12/01/24	4.00%	<u>4,475,000</u>
Total Bonds Payable			<u>\$ 4,655,000</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term bonds outstanding as of June 30, 2016 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 505,000	\$ 178,350	\$ 683,350
2018	510,000	157,150	667,150
2019	525,000	135,550	660,550
2020	475,000	115,100	590,100
2021	500,000	95,600	595,600
2022 - 2025	<u>2,140,000</u>	<u>174,600</u>	<u>2,314,600</u>
Total	<u>\$ 4,655,000</u>	<u>\$ 856,350</u>	<u>\$ 5,511,350</u>

C. Changes in General Long-Term Liabilities

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

	<u>Total Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Balance June 30, 2016</u>	<u>Less Current Portion</u>	<u>Equals Long-Term Portion June 30, 2016</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 5,155,000	\$ -	\$ (500,000)	\$ 4,655,000	\$ (505,000)	\$ 4,150,000
Unamortized bond premium	538,350	-	(53,835)	484,515	(53,835)	430,680
Capital leases	127,991	-	(61,454)	66,537	(49,266)	17,271
MSBA obligation	2,948,890	-	(2,268,090)	680,800	(85,100)	595,700
Compensated absences	284,000	23,866	-	307,866	-	307,866
Net OPEB obligation	5,599,071	746,871	-	6,345,942	-	6,345,942
Net pension liability	<u>5,473,944</u>	<u>360,209</u>	<u>-</u>	<u>5,834,153</u>	<u>-</u>	<u>5,834,153</u>
Totals	<u>\$ 20,127,246</u>	<u>\$ 1,130,946</u>	<u>\$ (2,883,379)</u>	<u>\$ 18,374,813</u>	<u>\$ (693,201)</u>	<u>\$ 17,681,612</u>

D. Unamortized Bond Premium

Bond premium of \$538,350 was received in fiscal year 2015 as a result of the issuance of \$4,910,000 of bonds. The premium is being amortized on a straight line basis over a 10 year period ending in fiscal year 2025. The

annual amortization is \$53,835, and the unamortized bond premium at June 30, 2016 is \$484,515.

10. Capital Lease Obligations

The District has various lease agreements to finance the acquisition of computers, copiers and trucks. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2016.

2017	\$ 52,403
2018	9,544
2019	<u>9,544</u>
Total minimum lease payments	71,491
Less amounts representing interest	<u>(4,954)</u>
Present Value of Minimum Lease Payments	<u>\$ 66,537</u>

11. MSBA Obligation and Special Item

Effective July 1, 2010 the District terminated its lease agreements with the Towns of Blandford, Russell, and Worthington regarding the leasing of the elementary school building in each of those towns and closed down the schools. As a result of this action, the Massachusetts School Building Authority (MSBA) required the District to repay \$4,587,165 of grants it gave to the District in prior years to finance leasehold improvements associated with these three school buildings.

In fiscal year 2016, the District re-opened Russell Elementary and Conwell Elementary and as a result the MSBA agreed to forgive the pro rata share of the grant funds associated with those buildings, which totaled \$2,182,990. As of June 30, 2016, the District's remaining obligation is related to the school building located in the Town of Blandford. The balance owed to MSBA as of June 30, 2016 is \$680,800.

12. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

13. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the School District that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2016:

	<u>Entity-wide Basis</u>	<u>Fund Basis</u>
	<u>Governmental Activities</u>	<u>Nonmajor Governmental Funds</u>
Unearned revenue	\$ 3,537	\$ 3,537
Pension related:		
Changes in proportion and differences between contributions and proportionate share of contributions	<u>391,012</u>	<u>-</u>
Total	<u>\$ 394,549</u>	<u>\$ 3,537</u>

14. Governmental Funds – Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The School District implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2016:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes surplus related to nonmajor governmental fund inventory for the food service program.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes

various special revenue funds and the residual balance of capital projects funded by bond proceeds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School District's highest level of decision-making authority. This fund balance classification includes funds set aside by the School District for future debt payments.

Assigned - Represents amounts that are constrained by the School District's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various School District departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period and surplus (E&D) to be used in the subsequent year's budget.

Unassigned - Represents amounts that are available to be spent in future periods and deficit funds.

Following is a breakdown of the School District's fund balances at June 30, 2016:

	General Fund	School Choice Fund	Nonmajor Governmental Funds	Total Governmental Funds
Non-spendable				
Reserve for inventory	\$ -	\$ -	\$ 6,376	\$ 6,376
Total Non-spendable				
Restricted				
Special revenue funds	-	608,848	675,306	1,284,154
Capital project funds	-	-	2,403	2,403
Total Restricted	-	608,848	677,709	1,286,557
Committed				
Debt reserve funds	-	-	7,052	7,052
Total Committed	-	-	7,052	7,052
Assigned				
Reserved for expenditures	350,000	-	-	350,000
Total Assigned	350,000	-	-	350,000
Unassigned				
General fund	681,516	-	-	681,516
Deficit funds	-	-	(8,387)	(8,387)
Total Unassigned	681,516	-	(8,387)	673,129
Total Fund Balance	\$ 1,031,516	\$ 608,848	\$ 682,750	\$ 2,323,114

15. Commitments and Contingencies

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be School District expects such amounts, if any, to be immaterial.

Self-Insurance – The Town participates in the Hampshire County Group Insurance Trust to provide health insurance coverage to its employees. The Trust is funded by member assessments, which are calculated in a manner similar to commercial insurance premiums. As of June 30, 2016 the Trust contracted with an insurance carrier for excess liability coverage which takes effect when an individual claim exceeds \$250,000.

If the Trust were to experience a cash deficit, each member would be required to contribute additional funds. At June 30, 2016, according to the Trust's unaudited financial statements, after accruing an estimated liability for incurred but unreported claims of approximately \$3.7 million, the Trust was in a surplus position of approximately \$20.5 million.

16. Post-Employment Healthcare and Life Insurance Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net position when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the statement of net position over time.

A. Plan Description

In addition to providing the pension benefits described in the following footnote, the School District provides post-employment health care and life insurance benefits for retired employees through the School District's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of July 1, 2014, the actuarial valuation date, approximately 148 retirees and 139 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The School District provides medical, prescription drug and life insurance to retirees and their covered dependents. All active employees who retire from the School District and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees who are not eligible for Medicare contribute at the same rate as active employees, which range from 21% to 40%. Medicare-eligible retirees contribute 40% of the cost of the health plan, as determined by the School District. The School District contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The School District's fiscal 2016 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the School District's annual OPEB cost for the year ending June 30, 2016, the amount actually contributed to the plan, and the change in the School District's net OPEB obligation based on an actuarial valuation as of July 1, 2014.

Annual Required Contribution (ARC)	\$ 1,239,534
Interest on net OPEB obligation	223,963
Adjustment to ARC	<u>(287,817)</u>
Annual OPEB cost	1,175,680
Contributions made	<u>(428,809)</u>
Increase in net OPEB obligation	746,871
Net OPEB obligation - beginning of year	<u>5,599,071</u>
Net OPEB obligation - end of year	<u><u>\$ 6,345,942</u></u>

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Costs</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 1,175,680	36%	\$ 6,345,942
2015	\$ 1,128,152	36%	\$ 5,599,071
2014	\$ 1,287,259	35%	\$ 4,876,527
2013	\$ 1,231,040	33%	\$ 4,035,108

E. Funded Status and Funding Progress

The funded status of the plan as of July 1, 2014, the date of the most recent actuarial valuation was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 13,682,151
Actuarial value of plan assets	-
	<hr/>
Unfunded actuarial accrued liability (UAAL)	\$ 13,682,151
	<hr/>
Funded ratio (actuarial value of plan assets/AAL)	0%
	<hr/>
Covered payroll (active plan members)	6,978,122
	<hr/>
UAAL as a percentage of covered payroll	196.07%
	<hr/>

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

F. Actuarial Methods and Assumptions

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

In the July 1, 2014 actuarial valuation the entry age normal cost method was used. The actuarial value of assets was not determined as the School District had not advanced funded its obligation at that time. The actuarial assumptions include a 4% investment rate of return, annual payroll increases of 2.5% and an initial annual healthcare cost trend rate of 8% which decreases to a 5% long-term rate for all healthcare benefits after four years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4%.

17. Hampshire County Retirement System

The School District follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

A. Plan Description

Substantially all employees of the School District (except teachers and administrators) are members of the Hampshire County Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publically available in the System located at 99 Industrial Avenue Northampton, MA 01060.

Participant Retirement Benefits

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 those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town/City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participants Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 – December 31, 1983	7%
January 1, 1984 – June 30, 1996	8%
Beginning July 1, 1996	9%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The School District’s contribution to the System for the year ended June 30, 2016 as \$523,284, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

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

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

At June 30, 2016, the School District reported a liability of \$5,834,153 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014, rolled forward to December 31, 2015. The School District’s proportion of the net pension liability was based on a projection of the School District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the School District’s proportion was 2.80932%, which was a decrease of .12504% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2016, the School District recognized pension expense of \$640,343. In addition, the School District reported deferred

outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Net difference between projected and actual pension investment earnings	\$ 604,333	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	<u>-</u>	<u>391,012</u>
Total	<u>\$ 604,333</u>	<u>\$ 391,012</u>

Deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 61,216
2018	61,216
2019	61,216
2020	52,779
2021	<u>(23,106)</u>
Total	<u>\$ 213,321</u>

D. Actuarial assumptions

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

Valuation Date	1/1/2014
Actuarial cost method	Entry Age Normal Cost
Actuarial assumptions:	
Investment rate of return	7.875%
Projected salary increases	4.5-7.5%
Inflation rate	3.00%
Post-retirement cost-of-living adjustment	3% of first \$13,000

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset

allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	2.00%	0.00%
Large cap equities	11.00%	4.37%
Small/Mid cap equities	6.00%	4.61%
International equities	13.50%	4.85%
Emerging equities	7.00%	6.31%
Core bonds	7.00%	0.86%
High-Yield bonds	5.00%	2.67%
Global bonds	3.00%	-0.24%
EMD (local currency)	6.00%	3.40%
Bank loans	4.00%	2.91%
Private equity	10.00%	6.31%
Private debt	3.00%	4.85%
Real estate (core)	10.00%	3.40%
Hedge funds	5.00%	3.40%
Global asset allocation	<u>7.50%</u>	2.61%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.875%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive 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.

F. Sensitivity of the proportionate share of the net pension liability to changes in the discount rate

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.875 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1

percentage-point lower (6.875%) or 1 percentage-point higher (8.875%) than the current rate (amounts in thousands):

Fiscal Year Ended	1% Decrease (6.875%)	Current Discount Rate (7.875%)	1% Increase (8.875%)
6/30/2016	\$ 7,259,897	\$ 5,834,153	\$4,705,352

Pension plan fiduciary net position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued System financial report.

18. Massachusetts Teachers’ Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers’ Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all 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 does not issue a stand-alone audited financial report.

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

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member’s

highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

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

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

C. Contributions

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

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

D. Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. This valuation used the following assumptions:

- (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.

- Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Post-retirement – reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	
		<u>2015</u>	<u>2014</u>
Global equity	40.0%	6.9%	7.2%
Core fixed income	13.0%	2.4%	2.5%
Private equity	10.0%	8.5%	8.8%
Real estate	10.0%	6.5%	6.3%
Value added fixed income	10.0%	5.8%	6.3%
Hedge Funds	9.0%	5.8%	5.5%
Portfolio Completion Strategies	4.0%	5.5%	-
Timber/natural resources	4.0%	6.6%	5.0%
Total	<u>100.0%</u>		

E. Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on

pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease to 6.5%</u>	<u>Current Discount Rate 7.5%</u>	<u>1% Increase to 8.5%</u>
June 30, 2015	\$ 25,449,000	\$ 20,489,643	\$ 16,221,000

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. School District Proportions

In fiscal year 2015 (the most recent measurement period), the Commonwealth’s proportionate share of the MTRS’ collective net pension liability and pension expense that is associated with the School District was \$22,053,814 and \$1,788,761, respectively, based on a proportionate share of 0.107634%. As required by GASB 68, the School District has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide Statement of Activities.

19. Risk Management

The government 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 government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

20. Beginning Fund Balance Reclassification

The School District's major governmental funds for fiscal year 2016, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 06/30/15 (as previously reported)	Reclassification	Fund Equity 06/30/15 (as restated)
Nonmajor funds	\$ 671,962	\$ 2,403	\$ 674,365
Debt defeasance major fund	<u>2,403</u>	<u>(2,403)</u>	<u>-</u>
Total	<u>\$ 674,365</u>	<u>\$ -</u>	<u>\$ 674,365</u>

21. Beginning Net Position Restatement

The beginning (July 1, 2015) net position of the School District has been restated as follows:

	Governmental <u>Activities</u>	<u>Fund-Basis</u> <u>General Fund</u>
<u>Government-Wide Financial Statements</u>		
As previously reported	\$ 9,253,981	\$ 985,716
To correct overstated accounts payable and accrued payroll liabilities	<u>98,922</u>	<u>98,922</u>
As restated	<u>\$ 9,352,903</u>	<u>\$ 1,084,638</u>

22. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, replacing Statement No. 43 and 57, which is required to be implemented for fiscal year 2017. Included are requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, 43, and 50. Management's current assessment is that this pronouncement will not have a significant impact on the Plan's financial statements, though the additional note disclosures and required supplementary information will be significant.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, replacing requirements of Statements No. 45 and 57, effective for the District beginning with its year ending June 30,

2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB. Management's current assessment is that this pronouncement will have an impact by increasing net OPEB liability, and as a result, decreasing the unrestricted net position on the government-wide financial statements.

GATEWAY REGIONAL SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

June 30, 2016
 (Unaudited)
 (Amounts Expressed in Thousands)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
07/01/14	\$ -	\$ 13,682	\$ 13,682	0.0%	\$ 6,978	196.1%
07/01/12	\$ -	\$ 14,126	\$ 14,126	0.0%	\$ 6,679	211.5%
01/01/09	\$ -	\$ 12,336	\$ 12,336	0.0%	\$ 6,771	182.2%

See Independent Auditors' Report.

GATEWAY REGIONAL SCHOOL DISTRICT
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

(Unaudited)

Hampshire County Retirement System

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	2.80932%	\$5,834,153	\$ 2,273,140	256.66%	55.29%
June 30, 2015	2.93436%	\$5,489,706	\$ 2,154,472	254.81%	58.07%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the District</u>	<u>Total Net Pension Liability Associated with the District</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	0.107634%	\$ -	\$ 22,053,814	\$ 22,053,814	\$6,822,799	-	55.38%
June 30, 2015	0.108283%	\$ -	\$ 17,213,016	\$ 17,213,016	\$6,639,366	-	61.64%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

GATEWAY REGIONAL SCHOOL DISTRICT
 SCHEDULE OF PENSION CONTRIBUTIONS
 REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016
 (Unaudited)

Hampshire County Retirement System

<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the <u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2016	\$ 523,284	\$ 523,284	\$ -	\$ 2,273,140	23.02%
June 30, 2015	\$ 511,587	\$ 511,587	\$ -	\$ 2,154,472	23.75%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

GATEWAY REGIONAL SCHOOL DISTRICT
 COMBINING NON-MAJOR GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2016

Special Revenue Funds:	Fund Balance	Revenue			Expenditures	Transfer Out	Fund Balance
	Beginning of Year	Charges for Services	Federal	State			End of Year
Title II	\$ -	\$ -	\$ 47,691	\$ -	\$ 47,691	\$ -	\$ -
Title II FY15	-	-	423	-	423	-	-
Sped Idea B FY14	-	-	295,851	-	262,325	-	33,526
Sped Ed. Early Learning	-	-	12,727	-	12,727	-	-
Spec. Ed. Program Improvement	-	-	7,484	-	7,421	-	63
Title I FY14	-	-	119,887	-	119,861	-	26
Title I FY15	1,483	-	9,331	-	10,814	-	-
Sped Program Improvement FY15	1,085	-	5,365	-	6,441	-	9
Sped Idea B FY15	28,844	-	-	-	28,844	-	-
EC Sped Prog Improvement FY15	-	-	2,000	-	2,000	-	-
Mass Summer Camp FY10	500	-	-	-	-	-	500
Mass Agriculture FY14	10	-	-	-	-	-	10
Mass Cultural Council FY14	125	-	-	-	-	-	125
School Support A FY15	-	-	-	8,983	8,983	-	-
Inclusive PreK Learning FY15	-	-	-	52,888	52,888	-	-
Teen Dating/Violence Prev	-	-	-	10,000	10,000	-	-
DPH FY15	-	-	-	52,300	52,300	-	-
Food Service Revolving	3,598	129,940	180,582	5,750	328,257	-	(8,387)
Wrap Around Revolving	152,910	69,131	-	-	80,115	-	141,926
Athletic Revolving	167,512	33,970	-	-	78,878	-	122,604
Adult Ed Revolving	973	-	-	-	-	-	973
Building Use Revolving	61,799	13,583	-	-	8,966	-	66,416
Regional Transportation Revolving	-	-	-	58,220	-	-	58,220
Tuition Revolving	8,937	9,527	-	-	3,760	-	14,704
Parking Fee Revolving	20,076	2,688	-	-	6,888	-	15,876
District Donation Revolving	978	-	-	-	350	-	628

See Independent Auditors' Report.

(Continued)

	Fund Balance Beginning of Year	Revenue			Expenditures	Transfer Out	Fund Balance End of Year
		Charges for Services	Federal	State			
Circuit Breaker Revolving	89,094	-	-	107,743	89,411	-	107,426
Wellness Center Revolving	1,587	15,168	-	-	16,348	-	407
Friends of Gateway Revolving	1,115	-	-	-	-	-	1,115
Identification Revolving	7,213	-	-	-	-	-	7,213
Emergency Planning Revolving	4,679	-	-	-	2,694	-	1,985
Technology Revolving	4,586	16,563	-	-	13,874	-	7,275
Middle School Textbook Revolving	20	-	-	-	-	-	20
High School Textbook Revolving	959	85	-	-	-	-	1,044
Lost Library Book Revolving	235	120	-	-	-	-	355
Recycling Revolving	1,248	-	-	-	690	-	558
Insurance Revolving	84,907	31,287	-	-	35,970	-	80,224
Mass Cultural Council Revolving	416	1,000	-	-	1,200	-	216
H1N1 Revolving	913	-	-	-	-	-	913
Littleville Elementary Revolving	13,396	2,533	-	-	2,930	-	12,999
Chester Elementary Revolving	5,014	972	-	-	1,660	-	4,326
Capital Projects Funds:							
Bond Refinancing	2,403	-	-	-	-	-	2,403
Debt Service Funds:							
Debt service	<u>7,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(698)</u>	<u>7,052</u>
Total Non-Major Governmental Funds	<u>\$ 674,365</u>	<u>\$ 326,567</u>	<u>\$ 681,341</u>	<u>\$ 295,884</u>	<u>\$ 1,294,709</u>	<u>\$ (698)</u>	<u>\$ 682,750</u>

See Independent Auditors' Report.