

**GATEWAY REGIONAL
SCHOOL DISTRICT**

Annual Financial Statements

For the Year Ended June 30, 2018

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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, 2018, 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, 2018, 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, and the Pension and OPEB Schedules appearing on pages 47 to 50 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

February 14, 2019

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, 2018.

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 liabilities and deferred inflows exceeded assets and deferred outflows by \$(3,155,508) (i.e., net position), a change of \$(983,694) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported a combined ending fund balance of \$2,917,992, a change of \$329,830 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$805,949, a change of \$(5,720) in comparison with 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.

NET POSITION

	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 3,294,896	\$ 2,880,411
Capital assets	<u>24,595,204</u>	<u>25,408,935</u>
Total Assets	27,890,100	28,289,346
Deferred outflows of resources	259,509	787,894
Long-term liabilities outstanding	27,940,414	18,625,412
Other liabilities	<u>386,543</u>	<u>306,620</u>
Total Liabilities	28,326,957	18,932,032
Deferred inflows of resources	2,978,160	581,463
Net assets:		
Invested in capital assets, net	19,231,464	20,217,687
Restricted	1,621,473	1,397,665
Unrestricted	<u>(24,008,445)</u>	<u>(12,051,607)</u>
Total Net Position	<u>\$ (3,155,508)</u>	<u>\$ 9,563,745</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 \$(3,155,508), a change of \$(983,694) in comparison with the (restated) prior year.

By far the largest portion of net position, \$19,231,464 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, \$1,621,473 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 \$(24,008,445), caused primarily by recording the unfunded OPEB and pension liabilities as described in the accompanying footnotes.

CHANGES IN NET POSITION

	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues:		
Charges for services	\$ 272,344	\$ 280,392
Operating grants and contributions	3,491,053	3,600,982
General revenues:		
Assessments to member towns	9,226,248	9,068,396
Grants and contributions not restricted to specific programs	6,370,232	6,426,251
Investment income	10,626	6,059
Miscellaneous	6,635	39,150
Total Revenues	<u>19,377,138</u>	<u>19,421,230</u>
Expenses:		
Administration and benefits	1,001,048	1,114,212
Instruction	9,809,383	10,347,223
Other school services	2,031,319	2,246,599
Operation and maintenance	1,311,890	1,354,139
Fixed charges	101,433	101,616
Acquisition	15,087	2,520
Interest on long-term debt	98,583	123,081
Intergovernmental	698,363	665,026
Special education	3,658,938	3,519,513
Unallocated depreciation	807,418	783,367
Total expenses	<u>19,533,462</u>	<u>20,257,296</u>
Change in net position before special item	(156,324)	(836,066)
Special item	<u>(827,370)</u>	<u>-</u>
Change in net position	(983,694)	(836,066)
Net position - beginning of year, as restated	<u>(2,171,814)</u>	<u>10,399,811</u>
Net position - end of year	<u>\$ (3,155,508)</u>	<u>\$ 9,563,745</u>

Fiscal year 2017 amounts reported above were not restated as the School District applied GASB 75 prospectively.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(983,694). Key elements of this change are as follows:

- General fund increase of \$108,979 which is further explained in the governmental funds section below.
- School Choice major fund revenues over expenditures of \$34,121.
- Non-major fund revenues over expenditures of \$186,730.
- Capital additions of \$51,570 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 \$(355,301) and amortization of bond premium of \$53,825.
- Changes in (restated) total OPEB liability and net pension liability (net of deferrals) of \$(507,751) and \$191,552, respectively, neither of which is due and payable in the current period and, therefore, not reported in governmental funds.
- MSBA grant repayment due to closing the Russell Elementary School \$(827,370).
- Other accrual adjustments of \$76,941.

D. FINANCIAL ANALYSIS OF 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 \$2,917,992, an increase of \$329,830 in comparison with the prior year. Key elements of this change are as follows:

- General fund increase of \$108,979 which is explained further below.
- School Choice major fund revenues over expenditures by \$34,121.
- Non-major fund revenues over expenditures by \$186,730.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$805,949, while total fund balance was \$1,290,648. 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>2018</u>	<u>2017</u>	<u>Change</u>	<u>% of Total 2018 General Fund Expenditures</u>
Unassigned fund balance	\$ 805,949	\$ 811,669	\$ (5,720)	4.8%
Total fund balance	\$ 1,290,648	\$ 1,181,669	\$ 108,979	7.7%

The fund balance of the general fund changed by \$108,979 during the current fiscal year. Key factors in this change are as follows:

- Actual revenues were over the current year budget by \$40,433.
- Expenditures were less than anticipated by \$374,847.
- Use of excess and deficiency of \$(370,000).
- Current year encumbrances of \$63,699.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

There were no changes between original and final budget.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets at year-end amounted to \$24,595,204 (net of accumulated depreciation). 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 - \$(865,301).
- Purchase of various equipment - \$51,570.

Long-term debt. At the end of the current fiscal year, total long-term debt (bonds payable) outstanding was \$3,640,000, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term liabilities 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, 2018

ASSETS	<u>Governmental Activities</u>
Current:	
Cash and short-term investments	\$ 3,098,816
Intergovernmental receivables	189,914
Inventory	6,166
Noncurrent:	
Capital assets, net of accumulated depreciation	24,577,954
Land	17,250
 DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	<u>259,509</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 28,149,609
 LIABILITIES	
Current:	
Warrants payable	143,012
Accounts payable	899
Accrued payroll and withholdings	229,456
Accrued interest payable	13,176
Current portion of long-term liabilities:	
Bonds payable	578,835
Other	231,920
Noncurrent:	
Bonds payable, net of current portion	3,438,010
Net OPEB liability	17,475,641
Net pension liability	4,776,720
Other, net of current portion	1,439,288
 DEFERRED INFLOWS OF RESOURCES	
Unearned revenue	3,537
Related to pensions	991,619
Related to OPEB	<u>1,983,004</u>
 TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	 31,305,117
 NET POSITION	
Invested in capital assets, net of related debt	19,231,464
Restricted for:	
Grants and other statutory restrictions	1,621,473
Unrestricted	<u>(24,008,445)</u>
 TOTAL NET POSITION	 \$ <u><u>(3,155,508)</u></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, 2018

		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	\$ 1,001,048	\$ -	\$ -	\$ (1,001,048)
Instruction	9,809,383	19,648	2,457,608	(7,332,127)
Other school services	2,031,319	234,304	391,377	(1,405,638)
Operation and maintenance	1,311,890	18,392	-	(1,293,498)
Fixed charges	101,433	-	-	(101,433)
Acquisition	15,087	-	-	(15,087)
Interest	98,583	-	-	(98,583)
Intergovernmental	698,363	-	-	(698,363)
Special education	3,658,938	-	642,068	(3,016,870)
Depreciation unallocated	807,418	-	-	(807,418)
	<u>\$ 19,533,462</u>	<u>\$ 272,344</u>	<u>\$ 3,491,053</u>	<u>(15,770,065)</u>
Total Governmental Activities				
		General Revenues:		
				9,226,248
				6,370,232
				10,626
				6,635
				15,613,741
				(156,324)
		Special Item:		
				(827,370)
				(983,694)
		Net Assets:		
				(2,171,814)
				\$ (3,155,508)

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

GATEWAY REGIONAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	<u>General</u>	<u>School Choice Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 1,622,897	\$ 674,280	\$ 801,639	\$ 3,098,816
Intergovernmental receivables	35,880	-	154,034	189,914
Inventory	-	-	6,166	6,166
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 1,658,777</u>	<u>\$ 674,280</u>	<u>\$ 961,839</u>	<u>\$ 3,294,896</u>
LIABILITIES				
Warrants payable	\$ 138,454	\$ -	\$ 4,558	\$ 143,012
Accounts payable	219	-	680	899
Accrued payroll	21,799	-	-	21,799
Payroll withholdings	207,657	-	-	207,657
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	368,129	-	5,238	373,367
DEFERRED INFLOWS OF RESOURCES	-	-	3,537	3,537
FUND BALANCES				
Nonspendable	-	-	6,166	6,166
Restricted	-	674,280	941,027	1,615,307
Committed	-	-	5,871	5,871
Assigned	484,699	-	-	484,699
Unassigned	805,949	-	-	805,949
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>1,290,648</u>	<u>674,280</u>	<u>953,064</u>	<u>2,917,992</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 1,658,777</u>	<u>\$ 674,280</u>	<u>\$ 961,839</u>	<u>\$ 3,294,896</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, 2018

Total Governmental Fund Balances	\$ 2,917,992
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	24,595,204
<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.	(13,176)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, net pension liability, and net OPEB liability are not due and payable in the current period and, therefore are not reported in the governmental funds.	(30,278,683)
<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>(376,845)</u>
Net Position of Governmental Activities	<u>\$ (3,155,508)</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, 2018

	<u>General</u>	<u>School Choice Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Assessments to member towns	\$ 9,226,248	\$ -	\$ -	\$ 9,226,248
Charges for services	-	-	272,344	272,344
Intergovernmental	7,534,977	247,831	991,426	8,774,234
Investment income	10,619	-	7	10,626
Miscellaneous	6,635	-	-	6,635
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	16,778,479	247,831	1,263,777	18,290,087
Expenditures:				
Current:				
Administration and benefits	727,874	-	-	727,874
Instruction	5,128,398	213,710	207,820	5,549,928
Other school services	1,324,350	-	488,532	1,812,882
Operation and maintenance	1,053,735	-	34,385	1,088,120
Fixed charges	101,433	-	-	101,433
Employee benefits	3,976,356	-	-	3,976,356
Acquisition	151,757	-	-	151,757
Special education	2,801,527	-	384,867	3,186,394
School choice/charter	698,363	-	-	698,363
Debt service	664,747	-	2,403	667,150
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	16,628,540	213,710	1,118,007	17,960,257
Excess (deficiency) of revenues over expenditures	149,939	34,121	145,770	329,830
Other Financing Sources (Uses):				
Transfers in	92,657	-	133,617	226,274
Transfers out	(133,617)	-	(92,657)	(226,274)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses):	(40,960)	-	40,960	-
Change in fund balance	108,979	34,121	186,730	329,830
Fund Balance, at Beginning of Year	1,181,669	640,159	766,334	2,588,162
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance, at End of Year	\$ 1,290,648	\$ 674,280	\$ 953,064	\$ 2,917,992

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, 2018

Net Changes in Fund Balances - Total Governmental Funds	\$ 329,830																
<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 style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Capital asset purchases</td> <td style="text-align: right;">51,570</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(865,301)</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 style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Repayment of debt</td> <td style="text-align: right;">510,000</td> </tr> <tr> <td>Amortization of bond premium</td> <td style="text-align: right;">53,835</td> </tr> </table> • Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Net pension liability and related deferred outflows and inflows of resources</td> <td style="text-align: right;">191,552</td> </tr> <tr> <td>Net OPEB liability and related deferred outflows and inflows of resources</td> <td style="text-align: right;">(504,751)</td> </tr> <tr> <td>MSBA grant repayment obligation</td> <td style="text-align: right;">(827,370)</td> </tr> <tr> <td>Other</td> <td style="text-align: right;"><u>76,941</u></td> </tr> </table> 		Capital asset purchases	51,570	Depreciation	(865,301)	Repayment of debt	510,000	Amortization of bond premium	53,835	Net pension liability and related deferred outflows and inflows of resources	191,552	Net OPEB liability and related deferred outflows and inflows of resources	(504,751)	MSBA grant repayment obligation	(827,370)	Other	<u>76,941</u>
Capital asset purchases	51,570																
Depreciation	(865,301)																
Repayment of debt	510,000																
Amortization of bond premium	53,835																
Net pension liability and related deferred outflows and inflows of resources	191,552																
Net OPEB liability and related deferred outflows and inflows of resources	(504,751)																
MSBA grant repayment obligation	(827,370)																
Other	<u>76,941</u>																
Change in Net Position of Governmental Activities	\$ <u>(983,694)</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Transfers In:				
Assessments to member towns	\$ 9,236,118	\$ 9,236,118	\$ 9,226,248	\$ (9,870)
Intergovernmental	6,330,416	6,330,416	6,370,232	39,816
Investment income	4,267	4,267	10,619	6,352
Miscellaneous	2,500	2,500	6,635	4,135
Transfers in	92,657	92,657	92,657	-
Total Revenues and Transfers In	15,665,958	15,665,958	15,706,391	40,433
Expenditures and Transfers Out:				
Administration and benefits	739,517	739,517	728,939	10,578
Instruction	5,173,800	5,173,800	5,132,025	41,775
Other school services	1,457,200	1,457,200	1,340,301	116,899
Operation and maintenance	1,106,807	1,106,807	1,096,791	10,016
Fixed charges	107,422	107,422	101,433	5,989
Employee benefits	2,831,506	2,831,506	2,811,611	19,895
Acquisition	90,188	90,188	151,757	(61,569)
Debt service	667,150	667,150	664,747	2,403
Special education	3,094,635	3,094,635	2,801,527	293,108
School choice/charter	634,116	634,116	698,363	(64,247)
Transfers out	133,617	133,617	133,617	-
Total Expenditures and Transfers Out	16,035,958	16,035,958	15,661,111	374,847
Excess of revenues and transfers in over expenditures and transfers out	(370,000)	(370,000)	45,280	415,280
Other Financing Sources:				
Use of excess and deficiency for Operating Budget	370,000	370,000	-	(370,000)
Total Other Financing Sources	370,000	370,000	-	(370,000)
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 45,280	\$ 45,280

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

GATEWAY REGIONAL SCHOOL DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2018

	<u>Private Purpose Trust Funds</u>	<u>Other Post Employment Benefits Trust Fund</u>	<u>Agency Funds</u>
ASSETS			
Cash and short-term investments	\$ 18,356	\$ -	\$ 60,649
Investments	<u>-</u>	<u>128,811</u>	<u>-</u>
Total Assets	18,356	128,811	60,649
 LIABILITIES AND NET ASSETS			
Student activity funds	<u>-</u>	<u>-</u>	<u>60,649</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>60,649</u>
 NET POSITION			
Total net position held in trust	<u>\$ 18,356</u>	<u>\$ 128,811</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, 2018

	Private Purpose <u>Trust Funds</u>	Other Post Employment Benefits <u>Trust Fund</u>
Additions:		
Investment income	\$ 2	\$ 8,074
Contributions	<u>17,068</u>	<u>452,444</u>
Total additions	17,070	460,518
Deductions:		
Employee benefits	-	452,444
Scholarships	<u>18,224</u>	<u>-</u>
Total deductions	<u>18,224</u>	<u>452,444</u>
Net change	(1,154)	8,074
Net position:		
Beginning of year	<u>19,510</u>	<u>120,737</u>
End of year	<u>\$ 18,356</u>	<u>\$ 128,811</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 2018, 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*. 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, certain expenditures such as debt service, claims and judgments, compensated absences, OPEB, and pension 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 fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The School District reports the following fiduciary funds:

- The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in a permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The *other post-employment benefits trust fund* is used to accumulate resources for health and life insurance benefits for retired 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 fair 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The 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 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.

The District set up a special revenue fund to accumulate funds to pay future compensated absences. The balance at June 30, 2018 is \$170,485.

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.

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>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 16,778,479	\$ 16,628,540
Other financing sources/uses	92,657	133,617
Reverse effect of non-budgeted State contributions to teachers retirement	(1,164,745)	(1,164,745)
Add end of year appropriation carryforwards to expenditures	-	63,699
Budgetary basis	<u>\$ 15,706,391</u>	<u>\$ 15,661,111</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, 2018, the assessments were calculated as follows:

	Minimum <u>Contribution</u>	Contribution Outside Net <u>Sch. Spending</u>	Total <u>Assessments</u>
Blandford	\$ 1,015,369	\$ 508,061	\$ 1,523,430
Chester	818,243	674,390	1,492,633
Huntington	1,420,718	1,195,940	2,616,658
Middlefield	314,813	161,832	476,645
Montgomery	592,824	314,713	907,537
Russell	<u>1,023,275</u>	<u>1,195,940</u>	<u>2,219,215</u>
Total	<u>\$ 5,185,242</u>	<u>\$ 4,050,876</u>	<u>\$ 9,236,118</u>

The fiscal year 2018 assessments were reduced by a total of \$9,870 which represents the District's Excess and Deficiency (certified surplus) that exceeded the limit allowed by Massachusetts General Laws (5% of the subsequent year's budget).

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 does not have a deposit policy for custodial credit risk.

At June 30, 2018, none of the School District's bank balance of \$3,242,542 was exposed to custodial credit risk as uninsured and/or uncollateralized.

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 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, 2018:

<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
Investments measured at the net asset value (NAV):				
External investment pool	\$ 128,811	-	monthly	30 days

5. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2018.

6. Capital Assets

Capital asset activity for the year ended June 30, 2018 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	\$ 38,800,546	\$ -	\$ -	\$ 38,800,546
Machinery, equipment, and furnishings	4,853,397	51,570	-	4,904,967
Total capital assets, being depreciated	43,653,943	51,570	-	43,705,513
Less accumulated depreciation for:				
Buildings and improvements	(13,613,612)	(776,011)	-	(14,389,623)
Machinery, equipment, and furnishings	(4,648,646)	(89,290)	-	(4,737,936)
Total accumulated depreciation	(18,262,258)	(865,301)	-	(19,127,559)
Total capital assets, being depreciated, net	25,391,685	(813,731)	-	24,577,954
Capital assets, not being depreciated:				
Land	17,250	-	-	17,250
Total capital assets, not being depreciated	17,250	-	-	17,250
Total capital assets, net	\$ 25,408,935	\$ (813,731)	\$ -	\$ 24,595,204

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

Governmental Activities:	
Instruction	\$ 45,136
Operation and maintenance	12,747
Unallocated depreciation	<u>807,418</u>
Total depreciation expense - governmental activities	<u>\$ 865,301</u>

7. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position 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. Deferred outflows of resources related to pensions in accordance with GASB Statements No. 68 are more formally discussed in the corresponding pension notes.

8. Warrants and Accounts Payable

Warrants payable represent 2018 expenditures paid by July 15, 2018. Accounts payable represent additional 2018 expenditures paid after July 15, 2018.

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, 2018</u>
Bonds payable:			
School project	07/01/18	5.25%	\$ 60,000
FY10 refunding bonds	12/01/24	4.00%	<u>3,580,000</u>
Total Governmental Activities			<u>\$ 3,640,000</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term bonds outstanding as of June 30, 2018 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 525,000	\$ 135,550	\$ 660,550
2020	475,000	115,100	590,100
2021	500,000	95,600	595,600
2022	510,000	75,400	585,400
2023	525,000	54,700	579,700
2024 - 2026	<u>1,105,000</u>	<u>44,500</u>	<u>1,149,500</u>
Total	<u>\$ 3,640,000</u>	<u>\$ 520,850</u>	<u>\$ 4,160,850</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2018, the following changes occurred in long-term liabilities:

	Total Balance July 1, 2017 (restated)	<u>Additions</u>	<u>Reductions</u>	Total Balance June 30, 2018	Less Current Portion	Equals Long-Term Portion June 30, 2018
<u>Governmental Activities</u>						
Bonds payable	\$ 4,150,000	\$ -	\$ (510,000)	\$ 3,640,000	\$ (525,000)	\$ 3,115,000
Unamortized bond premium	<u>430,680</u>	<u>-</u>	<u>(53,835)</u>	<u>376,845</u>	<u>(53,835)</u>	<u>323,010</u>
Total bonds payable	4,580,680	-	(563,835)	4,016,845	(578,835)	3,438,010
Net OPEB liability	18,953,894	-	(1,478,253)	17,475,641	-	17,475,641
Net pension liability	5,910,350	-	(1,133,630)	4,776,720	-	4,776,720
Other:						
MSBA obligation	595,700	827,370	(85,100)	1,337,970	(222,995)	1,114,975
Compensated absences	303,076	21,237	-	324,313	-	324,313
Capital leases	<u>17,271</u>	<u>-</u>	<u>(8,346)</u>	<u>8,925</u>	<u>(8,925)</u>	<u>-</u>
Total other	<u>916,047</u>	<u>848,607</u>	<u>(93,446)</u>	<u>1,671,208</u>	<u>(231,920)</u>	<u>1,439,288</u>
Total all	<u>\$ 30,360,971</u>	<u>\$ 848,607</u>	<u>\$ (3,269,164)</u>	<u>\$ 27,940,414</u>	<u>\$ (810,755)</u>	<u>\$ 27,129,659</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, 2018 is \$376,845.

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, 2018:

2019	\$ <u>9,544</u>
Total payments	9,544
Less amounts representing interest	<u>(619)</u>
Present Value of Lease Payments	\$ <u><u>8,925</u></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.

In fiscal year 2019, Russell Elementary was again closed which resulted in the District having to repay the Russell portion of the grant that had been forgiven upon reopening the school in fiscal year 2016. The increased grant repayment obligation resulting from closing the Russell Elementary School is reported as a Special Item on the Statement of Activities. The total balance owed to MSBA for repayment of grants associated with the Blandford and Russell Elementary Schools as of June 30, 2018 is \$1,337,970.

12. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position 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. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and is more fully described in the corresponding pension and OPEB notes.

13. **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, 2018:

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.

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 surplus (E&D) to be used in the subsequent year's budget.

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

Following is a breakdown of the School District's fund balances at June 30, 2018:

	General Fund	School Choice Fund	Nonmajor Governmental Funds	Total Governmental Funds
Non-spendable				
Reserve for inventory	\$ -	\$ -	\$ 6,166	\$ 6,166
Total Non-spendable				
Restricted				
Special revenue funds	-	674,280	941,027	1,615,307
Total Restricted	-	674,280	941,027	1,615,307
Committed				
Debt reserve funds	-	-	5,871	5,871
Total Committed	-	-	5,871	5,871
Assigned				
Encumbrances	63,699	-	-	63,699
Reserved for expenditures	421,000	-	-	421,000
Total Assigned	484,699	-	-	484,699
Unassigned				
General fund	805,949	-	-	805,949
Total Unassigned	805,949	-	-	805,949
Total Fund Balance	\$ 1,290,648	\$ 674,280	\$ 953,064	\$ 2,917,992

14. **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 publicly 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.

If a participant was a member prior to February 1, 2012, 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, 2018 was \$548,282, 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, 2018, the School District reported a liability of \$4,776,720 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. 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, 2018, the School District's proportion was 2.57033%, which was a decrease of 0.1185% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the School District recognized pension expense of \$438,934. In addition, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual pension investment earnings	\$ -	\$ 202,972
Difference between expected and actual experience	-	77,474
Changes in assumptions	259,509	219,109
Changes in proportion and differences between contributions and proportionate share of contributions	-	492,064
Total	<u>\$ 259,509</u>	<u>\$ 991,619</u>

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

Year ended June 30:	
2019	\$ (81,556)
2020	(119,581)
2021	(192,126)
2022	(194,643)
2023	<u>(144,204)</u>
Total	<u>\$ (732,110)</u>

D. Actuarial Assumptions

The total pension liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	1/1/2018
Actuarial cost method	Entry Age Normal Cost
Actuarial assumptions:	
Investment rate of return	7.45%
Projected salary increases	4.25% - 4.75%
Inflation rate	3.00%
Post-retirement cost-of-living adjustment	3% of first \$13,000

Mortality rates were based on the RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB. For disabled members, RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB.

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of the most recent actuarial experience study, which was for the period ending December 31, 2017.

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>
Domestic Equity	20.50%	4.82%
International Equity	16.50%	5.00%
Emerging Markets Equity	8.00%	6.50%
Domestic Fixed Income	10.00%	1.00%
Emerging Fixed Income	6.00%	3.75%
Global Fixed Income	3.00%	-0.25%
Opportunistic Fixed Income	9.00%	2.75%
Private Debt	3.00%	4.75%
Private Equity	10.00%	6.75%
Real estate (core)	12.00%	3.75%
Cash	2.00%	0.00%
Total	<u>100.00%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.45%. 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 7.45 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 or 1 percentage-point higher than the current rate:

1% Decrease	Current Discount Rate	1% Increase
<u>(6.45%)</u>	<u>(7.45%)</u>	<u>(8.45%)</u>
\$6,267,901	\$4,776,720	\$3,515,565

G. Pension Plan Fiduciary Net Position

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

15. **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) establish 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>Membership 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, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. This valuation used the following assumptions:

- (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 on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 White Collar Employee table projected generationally with Scale MP-2016 (gender distinct).
 - Post-retirement – reflects RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	5.0%
Core fixed income	13.0%	3.6%
Private equity	12.0%	1.1%
Real estate	11.0%	6.6%
Value added fixed income	10.0%	3.6%
Hedge funds	10.0%	3.8%
Portfolio completion strategies	4.0%	3.2%
Timber/natural resources	0.0%	3.6%
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):

1% Decrease to <u>6.5%</u>	Current Discount Rate <u>7.5%</u>	1% Increase to <u>8.5%</u>
\$ 28,424,300	\$ 22,885,391	\$ 18,193,400

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 2017 (the most recent measurement period), the School District's proportionate share of the MTRS' collective net pension liability was approximately \$21.5 million based on a proportionate share of 0.094272%. As required by GASB 68, the School District has recognized its portion of the Commonwealth's contribution of approximately \$1.1 million as both a revenue and expenditure in general fund, and its portion of the collective pension expense of approximately \$2.2 million as both a revenue and expense in the governmental activities.

16. Other Post-Employment Benefits (GASB 74 and GASB 75)

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. In fiscal year 2015, the School District established an OPEB Trust Fund to provide funding for future employee health care costs.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit

payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

All the following OPEB disclosures are based on a measurement date of June 30, 2018.

A. General Information about the OPEB Plan

Plan Description

The School District provides post-employment healthcare benefits for retired employees through the School District's plan. The School District provides health insurance coverage through MIIA and Medex. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

The School District provides medical and prescription drug 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.

Plan Membership

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefit payments	162
Active employees	<u>135</u>
Total	<u><u>297</u></u>

B. Investments

The OPEB trust fund assets consist of shares in the Public Agency Retirement Services (PARS) fund.

Rate of return. For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 6.69% percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Actuarial Assumptions and Other Inputs

The net OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	4%
Salary increases	3.5%, average, including inflation
Investment rate of return	5.53%, net of OPEB plan investment expense
Discount rate	3.87%

Mortality rates were based on the RP-2000 fully generational combined mortality table with projection scale MP-2014.

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	37.10%	4.30%
Non-U.S. Equity	15.90%	6.30%
U.S. Aggregate Bonds	12.00%	2.00%
Intermediate-Term Credit	7.20%	2.50%
Short-Term Credit	4.80%	2.20%
Intermediate-Term TIPS	15.00%	1.20%
REITs	8.00%	4.10%
Total	<u>100.00%</u>	

D. Discount Rate

The discount rate used to measure the net OPEB liability was 3.87%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. As a result, a blended discount rate was used

based on a combination of the investment rate of return of 5.53% and municipal bond rate of 3.87% (based on the Bond Buyer's 20 Bond Index as of June 30, 2018).

E. Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2018, were as follows:

Total OPEB liability	\$ 17,604,452
Plan fiduciary net position	<u>(128,811)</u>
Net OPEB liability	<u>\$ 17,475,641</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 0.73%

F. Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net OPEB Liability <u>(a) - (b)</u>
Balances, beginning of year	\$ 19,074,631	\$ 120,737	\$ 18,953,894
Changes for the year:			
Service cost	697,068	-	697,068
Interest	611,829	-	611,829
Contributions - employer	-	452,444	(452,444)
Net investment income	-	8,074	(8,074)
Changes in assumptions or other inputs	(2,326,632)	-	(2,326,632)
Benefit payments	<u>(452,444)</u>	<u>(452,444)</u>	<u>-</u>
Net Changes	<u>(1,470,179)</u>	<u>8,074</u>	<u>(1,478,253)</u>
Balances, end of year	<u>\$ 17,604,452</u>	<u>\$ 128,811</u>	<u>\$ 17,475,641</u>

Changes of assumptions and other inputs are the result of a change in the discount rate from 3.13% in 2017 to 3.87% in 2018.

G. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

1% Decrease <u>(2.87%)</u>	Current Discount Rate <u>(3.87%)</u>	1% Increase <u>(4.87%)</u>
\$20,724,837	\$17,475,641	\$14,913,956

H. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it as calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

1% Decrease <u>(7.50%</u> <u>decreasing to</u> <u>4.00%)</u>	Current Healthcare Cost Trend Rates <u>(8.50%</u> <u>decreasing to</u> <u>5.00%)</u>	1% Increase <u>(9.50%</u> <u>decreasing to</u> <u>6.00%)</u>
\$14,466,442	\$17,475,641	\$21,424,920

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

For the year ended June 30, 2018, the School District recognized an OPEB expense of \$957,195. At June 30, 2018, the School District reported deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Inflows of Resources</u>
Change in assumptions	\$ 1,979,568
Net difference between projected and actual investment earnings	<u>3,436</u>
Total	<u>\$ 1,983,004</u>

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

<u>Year ended June 30:</u>	
2019	\$ 347,923
2020	347,923
2021	347,923
2022	347,923
2023	347,064
Thereafter	<u>244,248</u>
Total	<u>\$ 1,983,004</u>

17. 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 District 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, 2018 the Trust contracted with an insurance carrier for excess liability coverage which takes effect when an individual claim exceeds \$275,000.

If the Trust were to experience a cash deficit, each member would be required to contribute additional funds. At June 30, 2018, according to the Trust's unaudited financial statements, after accruing an estimated liability for incurred but unreported claims of approximately \$4.5 million, the Trust was in a surplus position of approximately \$22 million.

18. Beginning Net Position Restatement

The beginning (July 1, 2017) net position of the School District has been restated as follows:

<u>Government-Wide Financial Statements</u>	<u>Governmental Activities</u>
As previously reported	\$ 9,563,745
Implementation of GASB 75 for OPEB	<u>(11,735,559)</u>
As restated	<u>\$ (2,171,814)</u>

GATEWAY REGIONAL SCHOOL DISTRICT
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (GASB 68)

JUNE 30, 2018

(Unaudited)

(Amounts expressed in thousands)

Hampshire County Retirement System

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2018	December 31, 2017	2.57033%	\$4,777	\$2,023	236.13%	63.12%
June 30, 2017	December 31, 2016	2.68882%	\$5,910	\$2,122	278.51%	55.60%
June 30, 2016	December 31, 2015	2.80932%	\$5,834	\$2,273	256.67%	55.29%
June 30, 2015	December 31, 2014	2.93436%	\$5,490	\$2,154	254.87%	58.07%

Massachusetts Teachers' Retirement System

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the District	Total Net Pension Liability Associated with the District	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2018	June 30, 2017	0.094272%	\$ -	\$21,575	\$21,575	\$6,402	-	54.25%
June 30, 2017	June 30, 2016	0.101703%	\$ -	\$22,739	\$22,739	\$6,690	-	52.73%
June 30, 2016	June 30, 2015	0.107634%	\$ -	\$22,054	\$22,054	\$6,823	-	55.38%
June 30, 2015	June 30, 2014	0.108283%	\$ -	\$17,213	\$17,213	\$6,639	-	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 (GASB 68)

JUNE 30, 2018

(Unaudited)

(Amounts expressed in thousands)

Hampshire Retirement System

Fiscal Year	Measurement Date	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2018	December 31, 2017	\$548	\$548	\$0	\$2,023	27.09%
June 30, 2017	December 31, 2016	\$530	\$530	\$0	\$2,122	24.96%
June 30, 2016	December 31, 2015	\$523	\$523	\$0	\$2,273	23.02%
June 30, 2015	December 31, 2014	\$512	\$512	\$0	\$2,154	23.75%

Massachusetts Teachers' Retirement System

Fiscal Year	Measurement Date	Contractually Required Contribution Provided by Commonwealth	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2018	June 30, 2017	\$1,165	\$1,165	\$0	\$6,402	18.20%
June 30, 2017	June 30, 2016	\$1,144	\$1,144	\$0	\$6,689	17.10%
June 30, 2016	June 30, 2015	\$1,100	\$1,100	\$0	\$6,823	16.12%
June 30, 2015	June 30, 2014	\$1,015	\$1,015	\$0	\$6,639	15.29%

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
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
SCHEDULE OF CHANGES IN NET OPEB LIABILITY (GASB 74 AND 75)

(Unaudited)

(Amount expressed in thousands)

	For the year ended June 30,	
	2018	2017
Total OPEB liability		
Service cost	\$ 697	\$ 525
Interest on unfunded liability - time value of \$	612	642
Changes of assumptions (discount rate)	(2,327)	2,596
Benefit payments, including refunds of member contributions	(452)	(408)
Net change in total OPEB liability	(1,470)	3,355
Total OPEB liability - beginning	19,075	15,720
Total OPEB liability - ending (a)	17,605	19,075
Plan fiduciary net position*		
Contributions - employer	452	409
Net investment income	8	10
Benefit payments, including refunds of member contributions	(452)	(409)
Net change in plan fiduciary net position	8	10
Plan fiduciary net position - beginning	121	111
Plan fiduciary net position - ending (b)	129	121
Net OPEB liability (asset) - ending (a-b)	\$ 17,476	\$ 18,954

* May reflect certain rounding and immaterial classification differences from page 18.

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

See notes to the District's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

GATEWAY REGIONAL SCHOOL DISTRICT
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
SCHEDULES OF NET OPEB LIABILITY, CONTRIBUTIONS,
AND INVESTMENT RETURNS (GASB 74 AND 75)

(Unaudited)

(Amounts expressed in thousands)

	For the year ended June 30,	
	<u>2018</u>	<u>2017</u>
Schedule of Net OPEB Liability		
Total OPEB liability	\$ 17,605	\$ 19,075
Plan fiduciary net position	<u>(129)</u>	<u>(121)</u>
Net OPEB liability (asset)	<u>\$ 17,476</u>	<u>\$ 18,954</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.7%	0.6%
Schedule of Contributions	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 1,276	\$ 1,353
Contributions in relation to the actuarially determined contribution	<u>452</u>	<u>409</u>
Contribution deficiency (excess)	<u>\$ 824</u>	<u>\$ 944</u>
Schedule of Investment Returns	<u>2018</u>	<u>2017</u>
Annual money weighted rate of return, net of investment expense	6.69%	N/A

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

See notes to District's financial statements for summary of significant actuarial methods and assumptions.

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, 2018

Special Revenue Funds:	Fund Balance Beginning of Year	Revenue				Expenditures	Transfer In (Out)	Fund Balance End of Year
		Charges for Services/ Other	Federal	State				
Title II	\$ -	\$ -	\$ 141	\$ -	\$ 141	\$ -	\$ -	
Sped Idea B	-	-	232,056	-	179,266	-	52,790	
Title I FY16	-	-	127,652	-	126,728	-	924	
Title I FY17	1,065	-	12,493	-	13,558	-	-	
Sped Program Improvement	9	-	-	-	-	-	9	
Sped Idea B FY17	46,698	-	-	-	46,698	-	-	
Title II Receipts	-	-	32,245	-	32,245	-	-	
Spec. Ed. Early Learning	-	-	12,624	-	12,624	-	-	
Title IV	-	-	3,492	-	3,492	-	-	
Mass Summer Camp FY10	107	-	-	-	44	-	63	
Mass Cultural Council FY14	673	-	-	3,025	2,013	-	1,685	
Inclusive PreK Learning FY15	-	-	-	38,640	38,640	-	-	
DPH FY16	-	-	-	49,200	49,200	-	-	
Teen Dating	-	-	-	6,998	6,194	-	804	
Stars Grant	-	-	-	2,500	2,500	-	-	
WSE STEM Grant	-	-	-	4,500	4,500	-	-	
Food Service Revolving	5,500	105,898	201,459	6,920	283,093	-	36,684	
Wrap Around Revolving	148,525	92,804	-	-	70,216	-	171,113	
Athletic Revolving	81,429	34,399	-	-	40,336	-	75,492	
Building Use Revolving	59,922	16,342	-	-	25,501	-	50,763	
Regional Transportation Revolving	92,103	-	-	88,153	-	(92,103)	88,153	
Tuition Revolving	18,351	2,462	-	-	2,788	-	18,025	
Compensated absences	36,868	-	-	-	-	133,617	170,485	
Parking Fee Revolving	13,336	2,050	-	-	10,689	-	4,697	
District Donation Revolving	191	-	-	-	-	-	191	

See Independent Auditors' Report.

(Continued)

(Continued)

	Fund Balance Beginning of Year	Revenue			Expenditures	Transfer In (Out)	Fund Balance End of Year
		Charges for Services / Other	Federal	State			
Circuit Breaker Revolving	142,529	-	-	169,328	142,707	-	169,150
Wellness Center Revolving	-	1,200	-	-	1,196	-	4
Friends of Gateway Revolving	1,115	-	-	-	1,115	-	-
Identification Revolving	5,621	10	-	-	-	-	5,631
Technology Revolving	3,534	13,107	-	-	11,436	-	5,205
Middle School Textbook Revolving	4	-	-	-	4	-	-
High School Textbook Revolving	339	319	-	-	490	-	168
Lost Library Book Revolving	46	379	-	-	309	-	116
Insurance Revolving	80,224	-	-	-	-	-	80,224
Mass Cultural Council Revolving	216	600	-	-	600	-	216
H1N1 Revolving	693	-	-	-	694	-	(1)
Greater Westfield	500	-	-	-	-	-	500
Littleville Elementary Revolving	13,288	2,088	-	-	6,503	-	8,873
Chester Elementary Revolving	4,620	693	-	-	84	-	5,229
Capital Projects Funds:							
Bond Refinancing	2,403	-	-	-	2,403	-	-
Debt Service Funds:							
Debt service	6,425	-	-	-	-	(554)	5,871
Total Non-Major Governmental Funds	\$ 766,334	\$ 272,351	\$ 622,162	\$ 369,264	\$ 1,118,007	\$ 40,960	\$ 953,064

See Independent Auditors' Report.