

NASHOBA REGIONAL SCHOOL DISTRICT

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

FISCAL YEAR ENDED JUNE 30, 2012

NASHOBA REGIONAL SCHOOL DISTRICT

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

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Independent Auditors' Report

To the Honorable School Committee
Nashoba Regional School District
Bolton, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nashoba Regional School District (District), as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2012, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of

inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "Powers & Sullivan - LLC". The signature is written in a cursive, flowing style.

January 7, 2013

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Nashoba Regional School District, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2012. The District complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements. All amounts, unless otherwise indicated, are expressed in whole dollars.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Nashoba Regional School District's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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., uncollected revenues and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by member town assessments and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include providing pupil education at the seven District schools, facility maintenance, employee benefits, and central services. The district had no business-type activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the 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 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*.

Excluding the general fund and the school choice revolving fund, the District has several governmental funds that are aggregated and shown as nonmajor governmental funds.

The Nashoba Regional School District adopts an annual budget for its general fund. A budgetary comparison schedule has been provided for the general fund as required supplementary information after the notes to the financial statements to demonstrate compliance with this budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District’s own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District’s budgetary basis of accounting, its participation in the Worcester Regional Retirement System and its other postemployment benefit plan.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. Assets exceed liabilities by \$6.5 million at the close of fiscal 2012. Key components of the District’s governmental financial position are listed below.

	<u>2012</u>	<u>2011</u>
Assets:		
Current assets.....	\$ 9,177,863	\$ 8,128,948
Capital assets.....	19,366,499	19,650,650
Total assets.....	<u>28,544,362</u>	<u>27,779,598</u>
Liabilities:		
Current liabilities (excluding debt).....	2,486,911	1,090,787
Noncurrent liabilities (excluding debt).....	14,626,926	11,804,911
Current debt.....	730,000	775,000
Noncurrent debt.....	4,155,000	4,840,000
Total liabilities.....	<u>21,998,837</u>	<u>18,510,698</u>
Net Assets:		
Capital assets net of related debt.....	14,861,499	14,811,379
Restricted.....	270,632	389,979
Unrestricted.....	<u>(8,586,606)</u>	<u>(5,932,458)</u>
Total net assets.....	<u>\$ 6,545,525</u>	<u>\$ 9,268,900</u>

Net assets of \$14.9 million reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to pupils; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets of \$271,000 represent resources that are subject to external restrictions on how they may be used, such as grants. The remaining balance of unrestricted net assets reflects a deficit balance totaling \$8.6 million.

Governmental Activities

The governmental activities net assets decreased by \$2.7 in Fiscal 2012. The decrease in net assets is due to the recognition of a \$2.8 million expense for other postemployment benefits (see Note 10).

	<u>2012</u>	<u>2011</u>
Program revenues:		
Charges for services.....	\$ 2,339,073	\$ 2,232,793
Operating grants and contributions.....	6,922,723	7,099,038
 General Revenues:		
Member town assessments.....	34,191,072	33,621,197
Intergovernmental.....	8,303,493	8,188,412
Unrestricted investment income.....	23,015	28,495
Miscellaneous.....	15,584	40,939
Total revenues.....	<u>51,794,960</u>	<u>51,210,874</u>
 Expenses:		
System wide... ..	3,827,594	3,717,638
Employee benefits.....	13,617,905	15,634,603
Insurance.....	123,523	116,265
Health services.....	675,659	750,539
Facilities.....	3,321,054	3,385,191
Substitute teachers.....	430,950	397,565
Curriculum.....	361,829	442,669
Special education.....	7,792,223	7,235,605
Technology.....	1,097,881	1,009,934
Athletics.....	477,585	533,593
Nashoba Regional High School.....	6,361,764	6,301,517
Luther Burbank Middle school.....	1,601,858	1,578,801
Center School.....	1,285,556	1,406,661
Pompositticut School.....	1,605,145	1,337,837
Hale Middle School.....	1,523,446	1,373,932
Mary Rowlandson Elementary School.....	2,553,949	2,393,920
Florence Sawyer School.....	4,167,484	4,027,598
Federal and state grants.....	1,454,014	2,274,276
Extended day.....	279,140	252,953
Athletic revolving.....	218,159	197,044
Cafeteria.....	904,937	809,351
Other special revenue.....	642,860	588,348
Interest.....	193,820	219,770
Total expenses.....	<u>54,518,335</u>	<u>55,985,610</u>
 Change in net assets.....	<u>\$ (2,723,375)</u>	<u>\$ (4,774,736)</u>

Revenues increased by \$584,000 from the prior year. This was principally due to a \$489,000 increase in on-behalf payments for teacher's retirement benefits and \$87,000 in school choice receipts. Otherwise, changes in revenues and expenses closely paralleled the increases in the demand for student services, increases in employee benefits and other related personnel costs.

Financial Analysis of the Governmental Funds

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$6.8 million, a decrease of \$331,000 in comparison with the prior year. The decrease is primarily attributable to the planned use of reserves to balance the operating budget.

The general fund is the chief operating fund. At the end of the current fiscal year total fund balance equaled 3.4 million; of which \$1.9 million was unassigned, \$184,191 was restricted and \$1.3 million was assigned. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 4% of current year general fund expenditures, while total fund balance represents 7% of that same amount. See Note 7 for further details.

The school choice fund increased by \$125,000, which is the result of school choice revenues exceeding the budgeted use of school choice reserves.

Capital and Debt Administration

The District maintains a Aa2 Bond Rating with Moody's Investors Service, Inc. on its long-term debt. This designation by Moody's denotes superior credit quality due to factors such as established cash flows, highly reliable liquidity support, and/or a demonstrated broad-based access to the market for refinancing

The District has \$380,000 of state qualified deficit bonds and \$4.5 million of school addition and renovation bonds outstanding as of June 30, 2012.

The major capital activity during the current fiscal year related to the beginning of construction of the new athletic field.

Requests for Information

This financial report is designed to provide a general overview of the Nashoba Regional School District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent of Finance, Nashoba Regional School District, 50 Mechanic Street, Bolton, MA 01740.

Basic Financial Statements

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STATEMENT OF NET ASSETS

JUNE 30, 2012

	<u>Primary Government</u>
	Governmental Activities
ASSETS	
CURRENT:	
Cash and short-term investments.....	\$ 9,177,863
NONCURRENT:	
Capital assets, net of accumulated depreciation:	
Nondepreciable.....	404,922
Depreciable.....	<u>18,961,577</u>
TOTAL ASSETS.....	<u>28,544,362</u>
LIABILITIES	
CURRENT:	
Warrants payable.....	1,134,578
Accrued payroll.....	946,075
Accrued interest.....	89,055
Payroll withholdings.....	238,139
Other liabilities.....	12,064
Compensated absences.....	67,000
Bonds and notes payable.....	730,000
NONCURRENT:	
Other postemployment benefits.....	14,626,926
Bonds and notes payable.....	<u>4,155,000</u>
TOTAL LIABILITIES.....	<u>21,998,837</u>
NET ASSETS	
Invested in capital assets, net of related debt.....	14,861,499
Restricted for:	
Supplemental reserve.....	184,191
Gifts and grants.....	86,441
Unrestricted.....	<u>(8,586,606)</u>
TOTAL NET ASSETS.....	<u>\$ 6,545,525</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
<i>Governmental Activities:</i>				
System wide...	\$ 3,827,594	\$ 26,445	\$ -	\$ (3,801,149)
Employee benefits.....	13,617,905	-	4,739,000	(8,878,905)
Insurance.....	123,523	-	-	(123,523)
Health services.....	675,659	-	-	(675,659)
Facilities.....	3,321,054	-	-	(3,321,054)
Substitute teachers.....	430,950	-	-	(430,950)
Curriculum.....	361,829	-	-	(361,829)
Special education.....	7,792,223	-	502,000	(7,290,223)
Technology.....	1,097,881	-	-	(1,097,881)
Athletics.....	477,585	-	-	(477,585)
Nashoba Regional High School.....	6,361,764	-	-	(6,361,764)
Luther Burbank Middle School.....	1,601,858	-	-	(1,601,858)
Center School.....	1,285,556	-	-	(1,285,556)
Pompositticut School.....	1,605,145	-	-	(1,605,145)
Hale Middle School.....	1,523,446	-	-	(1,523,446)
Mary Rowlandson Elementary School....	2,553,949	-	-	(2,553,949)
Florence Sawyer School.....	4,167,484	-	-	(4,167,484)
Federal and state grants.....	1,454,014	-	1,520,996	66,982
Extended day.....	279,140	380,567	-	101,427
Athletic revolving.....	218,159	221,066	6,318	9,225
Cafeteria.....	904,937	828,757	130,296	54,116
Other special revenue.....	642,860	882,238	24,113	263,491
Interest.....	193,820	-	-	(193,820)
Total Governmental Activities.....	\$ 54,518,335	\$ 2,339,073	\$ 6,922,723	\$ (45,256,539)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government
	Governmental Activities
Changes in net assets:	
Net (expense) revenue from previous page.....	\$ <u><u>(45,256,539)</u></u>
<i>General revenues:</i>	
Member town assessments.....	34,191,072
Intergovernmental.....	8,303,493
Unrestricted investment income.....	23,015
Departmental and other.....	<u>15,584</u>
Total general revenues and transfers.....	<u>42,533,164</u>
Change in net assets.....	(2,723,375)
<i>Net Assets:</i>	
Beginning of year.....	<u>9,268,900</u>
End of year.....	\$ <u><u>6,545,525</u></u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2012

ASSETS	<u>General</u>	<u>School Choice</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments.....	\$ 5,302,874	\$ 1,490,205	\$ 2,384,784	\$ 9,177,863
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 687,158	\$ -	\$ 447,420	\$ 1,134,578
Accrued payroll.....	946,075	-	-	946,075
Payroll withholdings.....	238,139	-	-	238,139
Other liabilities.....	12,064	-	-	12,064
TOTAL LIABILITIES.....	<u>1,883,436</u>	<u>-</u>	<u>447,420</u>	<u>2,330,856</u>
FUND BALANCES:				
Restricted.....	184,191	1,490,205	2,288,644	3,963,040
Assigned.....	1,305,737	-	-	1,305,737
Unassigned.....	1,929,510	-	(351,280)	1,578,230
TOTAL FUND BALANCES.....	<u>3,419,438</u>	<u>1,490,205</u>	<u>1,937,364</u>	<u>6,847,007</u>
TOTAL LIABILITIES AND FUND BALANCES... \$	<u>5,302,874</u>	<u>1,490,205</u>	<u>2,384,784</u>	<u>9,177,863</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

Total governmental fund balances.....	\$	6,847,007
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		19,366,499
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(89,055)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....		(4,885,000)
Other postemployment benefits.....		(14,626,926)
Compensated absences.....		<u>(67,000)</u>
Net effect of reporting long-term liabilities.....		<u>(19,578,926)</u>
Net assets of governmental activities.....	\$	<u><u>6,545,525</u></u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	General	School Choice	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Member town assessments.....	\$ 34,191,072	\$ -	\$ -	\$ 34,191,072
Intergovernmental.....	11,927,977	1,113,516	1,652,292	14,693,785
Departmental and other.....	42,029	-	2,845,059	2,887,088
Investment income.....	23,015	-	-	23,015
TOTAL REVENUES.....	46,184,093	1,113,516	4,497,351	51,794,960
EXPENDITURES:				
Current:				
System wide.....	3,811,297	-	-	3,811,297
Employee benefits.....	10,795,890	-	-	10,795,890
Insurance.....	123,523	-	-	123,523
Health services.....	675,659	-	-	675,659
Facilities.....	3,305,754	-	-	3,305,754
Substitute teachers.....	430,950	-	-	430,950
Curriculum.....	361,829	-	-	361,829
Special education.....	7,473,607	-	318,616	7,792,223
Technology.....	1,098,081	-	-	1,098,081
Athletics.....	477,585	-	-	477,585
Nashoba Regional High School.....	5,720,814	-	367,009	6,087,823
Luther Burbank Middle School.....	1,598,277	-	-	1,598,277
Center School.....	1,284,756	-	-	1,284,756
Pompositicut School.....	1,603,213	-	-	1,603,213
Hale Middle School.....	1,520,446	-	-	1,520,446
Mary Rowlandson Elementary School.....	2,553,415	-	-	2,553,415
Florence Sawyer School.....	4,167,584	-	-	4,167,584
Federal and state grants.....	-	-	1,454,014	1,454,014
Extended day.....	-	-	279,140	279,140
Athletic revolving.....	-	-	218,159	218,159
Cafeteria.....	-	-	904,937	904,937
Other special revenue.....	-	-	642,860	642,860
Debt service:				
Maturing debt.....	730,000	-	-	730,000
Interest.....	208,366	-	-	208,366
TOTAL EXPENDITURES.....	47,941,046	-	4,184,735	52,125,781
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,756,953)	1,113,516	312,616	(330,821)
OTHER FINANCING SOURCES (USES):				
Transfers in.....	1,383,354	-	-	1,383,354
Transfers out.....	-	(988,354)	(395,000)	(1,383,354)
TOTAL OTHER FINANCING SOURCES (USES).....	1,383,354	(988,354)	(395,000)	-
NET CHANGE IN FUND BALANCES.....	(373,599)	125,162	(82,384)	(330,821)
FUND BALANCES AT BEGINNING OF YEAR.....	3,793,037	1,365,043	2,019,748	7,177,828
FUND BALANCES AT END OF YEAR.....	\$ 3,419,438	\$ 1,490,205	\$ 1,937,364	\$ 6,847,007

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds..... \$ (330,821)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	367,009
Depreciation expense.....	<u>(651,160)</u>

Net effect of reporting capital assets..... (284,151)

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Debt service principal payments.....	730,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	(30,934)
Net change in accrued interest on long-term debt.....	14,546
Net change in other postemployment benefits accrual.....	<u>(2,822,015)</u>

Net effect of recording long-term liabilities and amortizing deferred losses.... (2,838,403)

Change in net assets of governmental activities..... \$ (2,723,375)

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Private Purpose Trust Funds	Agency Funds
ASSETS		
CURRENT:		
Cash and short-term investments.....	\$ 687	\$ 157,351
LIABILITIES		
Liabilities due depositors.....	-	157,351
NET ASSETS		
Held in trust for education scholarships.....	\$ 687	-

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2012

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Interest.....	\$ 5
<u>DEDUCTIONS:</u>	
Student activities.....	<u>2,500</u>
CHANGE IN NET ASSETS.....	(2,495)
NET ASSETS AT BEGINNING OF YEAR.....	<u>3,182</u>
NET ASSETS AT END OF YEAR.....	\$ <u><u>687</u></u>

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The District was formed under Chapter 71 of the Massachusetts General Laws that, by agreement, serves the Towns of Bolton, Lancaster and Stow (Member Towns) and provides public education for pupils from member Towns in grades pre-kindergarten through twelve. An eight-member School Committee governs the District, which consists of elected members from the member towns for a term of 3 years.

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

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

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities* are primarily supported by taxes and intergovernmental revenues.

Fund Financial Statements

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

Major Fund Criteria

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

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

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

Fiduciary funds are reported by fund type.

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

Government-Wide Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.

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

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

Fund Financial Statements

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

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

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

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

The *school choice fund* is used to account for the receipt and disbursement of school choice tuitions.

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

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *private-purpose trust fund* is used to account for assets in which principal and investment income exclusively benefits individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a purely custodial capacity.

Government-Wide and Fund Financial Statements

For the government-wide financial statements and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Intergovernmental

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

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

F. Inventories

Government-Wide and Fund Financial Statements

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

G. Capital Assets

Government-Wide Financial Statements

Capital assets, which include land, land improvements, buildings, machinery and equipment, are reported in the government-wide financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs greater than \$5,000 with expected useful lives of greater than one year are capitalized at the date of acquisition or construction.

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

<u>Capital Asset Type</u>	<u>Useful Life</u>
Land improvements.....	5-50
Buildings.....	40
Machinery and equipment.....	5-10
Vehicles.....	5
Library and text books.....	3-10
Infrastructure.....	20-30

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

Governmental Fund Financial Statements

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

H. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

I. Interfund Transfers

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

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as “Transfers, net”.

Fund Financial Statements

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

J. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

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

Net assets have been restricted for the following:

“Supplemental reserve” reports the accumulation of funds to comply with special legislation (See Note 13).

“Gifts and grants” reports assets that have restrictions placed on them from outside parties.

Fund Financial Statements (Fund Balances)

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

The governmental fund balance classifications are as follows:

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

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

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

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

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

K. Long-term debt

Government-Wide Financial Statements

Long-term debt is reported as liabilities in the government-wide statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Governmental Fund Financial Statements

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

L. Investment Income

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

M. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide Financial Statements

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

Governmental Fund Financial Statements

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

N. Fund Deficits

Individual fund deficits exist, at June 30, 2012, within the nonmajor governmental funds. These deficits will be funded through receipts and other available funds in fiscal year 2013.

O. Use of Estimates*Government-Wide and Fund Financial Statements*

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

P. Total Column*Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 – CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Short-term Investments". The deposits and investments of the private purpose trust funds are held separately from those of other funds.

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

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of bank failure the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$6,320,344 and the bank balance totaled \$6,399,283. Of the bank balance, \$1,250,000 was

covered by Federal Depository Insurance, \$1,933,171 was insured under the Depositors Insurance Fund and \$3,216,112 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2012, the District's investments totaled \$3,015,557 and were invested in MMDT.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The investments in MMDT are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The District's investment policy is to adhere to Massachusetts General Law, Chapter 44, Section 55 which sets the legal investments for the District.

Interest Rate Risk

The District's investment policy is to structure its investments in a manner that will meet all the cash requirements of the District. The District participates in MMDT, which maintains a cash portfolio and short-term bond fund with combined average maturities of approximately 3 months.

Credit Risk

The District purchases investments that assures the principal amount invested is safe from credit and market risk. All of the District's investments at June 30, 2012, are unrated.

Concentration of Credit Risk

The District places no limit on the amount that may be invested in any one issuer. 100 percent of the District's investments are in MMDT.

NOTE 3 – CAPITAL ASSETS

Capital asset activity of the district, for the fiscal year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 37,913	\$ -	\$ -	\$ 37,913
Construction in progress.....	-	367,009		367,009
Total capital assets not being depreciated.....	<u>37,913</u>	<u>367,009</u>	<u>-</u>	<u>404,922</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	29,219,586	-	-	29,219,586
Land improvements.....	146,997	-	-	146,997
Machinery and equipment.....	590,821	-	-	590,821
Vehicles.....	273,639	-	-	273,639
Library and text books.....	1,536,091	-	-	1,536,091
Infrastructure.....	178,175	-	-	178,175
Total capital assets being depreciated.....	<u>31,945,309</u>	<u>-</u>	<u>-</u>	<u>31,945,309</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(9,812,363)	(610,878)	-	(10,423,241)
Land improvements.....	(95,550)	(14,700)	-	(110,250)
Machinery and equipment.....	(470,827)	(12,903)	-	(483,730)
Vehicles.....	(273,639)	-	-	(273,639)
Library and text books.....	(1,511,753)	(9,897)	-	(1,521,650)
Infrastructure.....	(168,440)	(2,782)	-	(171,222)
Total accumulated depreciation.....	<u>(12,332,572)</u>	<u>(651,160)</u>	<u>-</u>	<u>(12,983,732)</u>
Total capital assets being depreciated, net.....	<u>19,612,737</u>	<u>(651,160)</u>	<u>-</u>	<u>18,961,577</u>
Total governmental activities capital assets, net.....	<u>\$ 19,650,650</u>	<u>\$ (284,151)</u>	<u>\$ -</u>	<u>\$ 19,366,499</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Systemwide.....	\$ 9,897
High school.....	636,750
Luther Burbank middle school.....	1,881
Pompositticut school.....	<u>2,632</u>
Total depreciation expense - governmental activities.....	<u>\$ 651,160</u>

NOTE 4 - INTERFUND TRANSFERS

Interfund transfers, for the fiscal year ended June 30, 2012, totaled \$1,383,354 and consisted of budgeted transfers to the general fund from school choice receipts, third party reimbursements, the extended day program, and preschool tuition receipts totaling \$988,354, \$100,000, \$105,000 and \$190,000.

NOTE 4 – OPERATING LEASE

The District leases computer equipment to support its educational, business finance and other technological needs. Total costs for the leases were \$291,000 for the year ended June 30, 2012. The future minimum lease payments for these leases are as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2013.....	\$ 215,659
2014.....	163,571
2015.....	10,382
2016.....	10,382
2017.....	<u>10,382</u>
 Total.....	 \$ <u>410,376</u>

NOTE 5 – SHORT-TERM FINANCING

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

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

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

There was no short term debt outstanding at June 30, 2012.

NOTE 6 - LONG-TERM DEBT

General Long-Term Debt:

State law permits the District, under the provisions of Chapter 71, Section 16, to authorize indebtedness provided that written notice of the amount of the debt and of the general purposes for which it was authorized shall be given to the board of selectmen in each of the towns comprising the district not later than seven days after the date on which said debt was authorized by the district committee; and no debt may be incurred until the expiration of sixty days from the date on which said debt was so authorized; and prior to the expiration of said period any member town of the regional school district may hold a town meeting for the purpose of expressing disapproval of the amount of debt authorized by the district committee, and if at such meeting a majority of the voters present and voting thereon express disapproval of the amount authorized by the district committee, the said debt shall not be incurred and the district school committee shall prepare another proposal which may be the same as any prior proposal and an authorization to incur debt therefor.

State Qualified Deficit Bonds:

State law permitted the District, under the provisions of Chapter 344 of the Acts of 2002, a home rule petition, to issue deficit bonds or notes to maintain and operate the District while it adjusted the level of its expenditures and revenues to achieve balanced budgets and fiscal stability. In November 2002, the District issued \$3,800,000 of such deficit bonds.

Details related to the outstanding indebtedness at June 30, 2012, and the debt service requirements are as follows:

Purpose	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
State qualified deficit bond.....	3.00%	\$ 760,000	\$ -	\$ 380,000	\$ 380,000
Addition & Renovation to High School.....	3.00%-5.00%	<u>4,855,000</u>	<u>-</u>	<u>350,000</u>	<u>4,505,000</u>
Total bonds and notes payable.....		<u>\$ 5,615,000</u>	<u>\$ -</u>	<u>\$ 730,000</u>	<u>\$ 4,885,000</u>

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

Fiscal Year	Principal	Interest	Total
2013.....	\$ 730,000	\$ 190,416	\$ 920,416
2014.....	350,000	164,366	514,366
2015.....	350,000	146,866	496,866
2016.....	350,000	129,366	479,366
2017.....	345,000	111,866	456,866
2018.....	345,000	101,516	446,516
2019.....	345,000	91,166	436,166
2020.....	345,000	80,816	425,816
2021.....	345,000	70,466	415,466
2022.....	345,000	56,236	401,236
2023.....	345,000	42,436	387,436
2024.....	345,000	28,462	373,462
2025.....	<u>345,000</u>	<u>14,318</u>	<u>359,318</u>
Total.....	<u>\$ 4,885,000</u>	<u>\$ 1,228,296</u>	<u>\$ 6,113,296</u>

The District is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2012, the District had authorized and unissued debt in the amount of \$2,210,000 for the purpose of constructing a new athletic field at the high school.

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2012, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>		<u>Additions</u>		<u>Reductions</u>		<u>Ending Balance</u>		<u>Due Within One Year</u>
Long-term bonds and notes.....	\$ 5,615,000	\$	-	\$	(730,000)	\$	4,885,000	\$	730,000
Other postemployment benefits..	11,804,911		3,619,466		(797,451)		14,626,926		-
Compensated absences.....	<u>36,000</u>		<u>67,000</u>		<u>(36,000)</u>		<u>67,000</u>		<u>67,000</u>
Total.....	<u>\$ 17,455,911</u>	\$	<u>3,686,466</u>	\$	<u>(1,563,451)</u>	\$	<u>19,578,926</u>	\$	<u>797,000</u>

NOTE 7 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The District classifies fund balances according to the constraints imposed on the use of the resources. There are two major types of fund balances, which are nonspendable and spendable.

Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The District has no nonspendable funds reported as of June 30, 2012.

Spendable fund balances are classified based on a hierarchy of spending constraints.

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

As of June 30, 2012, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS			
	General	School Choice	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES				
Restricted for:				
Federal and State grants.....	\$ -	\$ -	\$ 86,441	\$ 86,441
Other revolving funds.....	-	1,490,205	1,680,632	3,170,837
Athletic funds.....	-	-	203,483	203,483
School lunch fund.....	-	-	318,088	318,088
Supplemental reserve fund.....	184,191	-	-	184,191
Assigned to:				
System wide.....	13,065	-	-	13,065
Employee benefits.....	946	-	-	946
Health services.....	1,610	-	-	1,610
Facilities.....	117,642	-	-	117,642
Curriculum.....	20,992	-	-	20,992
Special education.....	2,648	-	-	2,648
Technology.....	2,103	-	-	2,103
Athletics.....	2,247	-	-	2,247
Nashoba Regional High School.....	31,281	-	-	31,281
Luther Burbank Middle School.....	1,694	-	-	1,694
Center School.....	4,225	-	-	4,225
Pompositticut School.....	5,362	-	-	5,362
Hale Middle School.....	4,123	-	-	4,123
Mary Rowlandson Elementary School.....	10,491	-	-	10,491
Florence Sawyer School.....	2,308	-	-	2,308
E&D used for subsequent year's budget.....	1,085,000	-	-	1,085,000
Unassigned.....	1,929,510	-	(351,280)	1,578,230
TOTAL FUND BALANCES (DEFICIT).....	\$ 3,419,438	\$ 1,490,205	\$ 1,937,364	\$ 6,847,007

NOTE 8 – RISK FINANCING

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

The District is self-insured for a portion of its retirees’ health insurance and workers’ compensation activities. These activities are accounted for in the general fund where revenues are recorded when earned and expenses are recorded when the liability is incurred. As of June 30, 2012, there were no employees out on workers’ compensation and the liability for incurred but not reported health claims is immaterial and therefore not reported.

NOTE 9 - PENSION PLAN

Plan Description - The District contributes to the Worcester Regional Retirement System (System), a cost sharing multiple-employer defined benefit pension plan administered by the Worcester Regional Retirement Board. School teachers and certain administrators are members of the Commonwealth of Massachusetts’ Teachers

Retirement System, to which the District does not contribute. All pension benefits and expenses paid by the Teachers Retirement System are funded by the Commonwealth of Massachusetts (Commonwealth). The amount of these on-behalf payments totaled \$4,739,000 for the fiscal year ended June 30, 2012 and, accordingly, are reported in the general fund as intergovernmental revenues and employee benefits expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth. Cost-of-living adjustments granted after 1997 must be approved by the System and are borne by the System. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 2 Main Street, Worcester, Massachusetts 01608.

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The District is required to pay into the System its share of the system wide actuarial determined contribution that is apportioned among the employers based on active current payroll. The contributions of plan members and the District are governed by Chapter 32 of the MGL. The District's contributions to the System for the fiscal years ended June 30, 2012, 2011, and 2010 were \$745,059, \$662,713, and \$502,932, respectively, which equaled its required contribution for each fiscal year.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The Nashoba Regional School District administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the District's group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan.

Benefit provisions are negotiated between the District and the unions representing District employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy – Contribution requirements are also negotiated between the District and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The District contributes 50 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 50 percent of their premium costs. For fiscal year 2012, the District contributed \$797,451 to the plan.

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

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

Annual required contribution.....	\$ 3,490,498
Interest on net OPEB obligation.....	531,221
Adjustment to annual required contribution.....	<u>(402,253)</u>
Annual OPEB cost (expense).....	3,619,466
Contributions made.....	<u>(797,451)</u>
Increase in net OPEB obligation.....	2,822,015
Net OPEB obligation--beginning of year.....	<u>11,804,911</u>
Net OPEB obligation--end of year.....	<u>\$ 14,626,926</u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the prior two years is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2012	\$ 3,619,466	22%	\$ 14,626,926
6/30/2011	6,882,988	17%	11,804,911
6/30/2010	4,161,462	28%	6,120,603

Funded Status and Funding Progress – As of December 31, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$40,702,993, all of which was unfunded.

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

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

In the December 31, 2011, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4.5% investment return assumption, which is based on the expected yield on the assets of the District, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 8% initially, graded to 5% over 6 years and included a 4.5%

inflation assumption. The UAAL is being amortized over a 30 year period, on an open basis, with amortization payments increasing at 4.5% per year. The remaining amortization period at June 30, 2012 is 30 years.

NOTE 11 - COMMITMENTS

The District appropriates annually those amounts necessary for transportation of its students. For the fiscal year ended June 30, 2012, regular day and special education transportation expenditures totaled \$1.5 million and \$814,000, respectively. The regular day transportation contract was extended through June 30, 2013 and a special education transportation contract was executed that will expire on June 30, 2014.

NOTE 12 - CONTINGENCIES

The District participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2012, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

The District is subject to legal actions and claims that are subject to many uncertainties. Although the amount of liability, if any, at June 30, 2012, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2012.

NOTE 13 – SUPPLEMENTAL RESERVE FUND

The October 3, 2002 legislation required the establishment of a Supplemental Reserve Fund (Fund) into which funds are to be accumulated equal to a fixed percentage of each year's budget. Beginning in Fiscal 2004, the amount appropriated to create the fund was equal to 0.25% of the Districts prior year budget. Each year after Fiscal 2004, the balance was increased based on a percentage of the prior year's budget. At the end of Fiscal 2009 the balance was to be maintained equal to 1.5% of the prior year's budget.

Section 5 of Chapter 344 was amended by Section 29 of Chapter 120 to allow the District to use up to 25% of the balance, as of October 1, 2009, for budget fiscal years 2010, 2011, 2012 and 2013.

The District used \$135,000 of the supplemental reserve balance in fiscal 2012. As of June 30, 2012, the remaining supplemental reserve balance totaling \$184,191 has been reported as restricted fund balance in the general fund.

NOTE 14 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2012, the following GASB pronouncements were implemented:

- The GASB issued Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, an amendment of GASB Statement No. 53, which was implemented in fiscal year 2012 and did not impact the financial statements.

- The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which was implemented in fiscal year 2012 and did not impact the financial statements.

Future implementation of GASB pronouncements:

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.

Management is currently assessing the impact the implementation of these standards will have on the Basic Financial Statements.

Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
REVENUES:				
Member town assessments.....	\$ -	\$ 34,191,072	\$ 34,191,072	\$ 34,191,072
Intergovernmental.....	-	6,997,173	6,997,173	6,997,173
Miscellaneous.....	-	-	-	-
Investment income.....	-	60,000	60,000	60,000
TOTAL REVENUES.....	-	41,248,245	41,248,245	41,248,245
EXPENDITURES:				
Current:				
System wide.....	74,511	3,423,482	3,497,993	3,884,687
Employee benefits.....	-	6,393,000	6,393,000	6,423,000
Insurance.....	-	124,000	124,000	124,000
Health services.....	3,563	757,437	761,000	682,876
Facilities.....	78,631	3,314,183	3,392,814	3,432,815
Substitute teachers.....	-	272,000	272,000	430,950
Curriculum.....	26,605	471,930	498,535	373,490
Special education.....	47,053	7,582,552	7,629,605	7,536,755
Technology.....	58,206	1,017,415	1,075,621	1,101,243
Athletics.....	2,461	489,850	492,311	482,568
Nashoba Regional High School.....	37,071	5,703,294	5,740,365	5,758,938
Luther Burbank Middle School.....	3,958	1,678,834	1,682,792	1,644,836
Center School.....	1,451	1,416,420	1,417,871	1,292,369
Pompositticut School.....	667	1,447,960	1,448,627	1,614,870
Hale Middle School.....	21,006	1,484,919	1,505,925	1,537,808
Mary Rowlandson Elementary School.....	4,598	2,544,161	2,548,759	2,572,185
Florence Sawyer School.....	31,253	4,267,442	4,298,695	4,274,877
Debt service:				
Maturing debt.....	-	731,000	731,000	731,000
Interest.....	-	208,366	208,366	208,366
TOTAL EXPENDITURES.....	391,034	43,328,245	43,719,279	44,107,633
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(391,034)	(2,080,000)	(2,471,034)	(2,859,388)
OTHER FINANCING SOURCES (USES):				
Transfers in.....	-	995,000	995,000	1,383,354
NET CHANGE IN FUND BALANCE.....	(391,034)	(1,085,000)	(1,476,034)	(1,476,034)
BUDGETARY FUND BALANCE,				
Beginning of year.....	3,793,037	3,793,037	3,793,037	3,793,037
BUDGETARY FUND BALANCE, End of year.....	\$ 3,402,003	\$ 2,708,037	\$ 2,317,003	\$ 2,317,003

See notes to required supplementary information

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$	34,191,072	\$ -	\$ -
	7,188,977	-	191,804
	42,029	-	42,029
	<u>23,015</u>	<u>-</u>	<u>(36,985)</u>
	<u>41,445,093</u>	<u>-</u>	<u>196,848</u>
	3,811,297	13,065	60,325
	6,056,890	946	365,164
	123,523	-	477
	675,659	1,610	5,607
	3,305,754	117,642	9,419
	430,950	-	-
	361,829	20,992	(9,331)
	7,473,607	2,648	60,500
	1,098,081	2,103	1,059
	477,585	2,247	2,736
	5,720,814	31,281	6,843
	1,598,277	1,694	44,865
	1,284,756	4,225	3,388
	1,603,213	5,362	6,295
	1,520,446	4,123	13,239
	2,553,415	10,491	8,279
	4,167,584	2,308	104,985
	730,000	-	1,000
	<u>208,366</u>	<u>-</u>	<u>-</u>
	<u>43,202,046</u>	<u>220,737</u>	<u>684,850</u>
	<u>(1,756,953)</u>	<u>(220,737)</u>	<u>881,698</u>
	<u>1,383,354</u>	<u>-</u>	<u>-</u>
	(373,599) \$	<u>(220,737) \$</u>	<u>881,698</u>
	<u>3,793,037</u>		
\$	<u>3,419,438</u>		

Retirement System Schedules of Funding Progress and Employer Contributions

The Retirement System Schedule of Funding Progress presents multiyear trend information about whether the actuarial value of planned assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the District is one participating employer, as well as the District's proportionate share of the plan's annual contributions

WORCESTER REGIONAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/10	\$ 413,976,785	\$ 863,002,067	\$ 449,025,282	\$ 48.0%	\$ 241,992,607	\$ 185.6%
01/01/07	389,758,785	692,768,325	303,009,540	56.3%	211,518,755	143.3%
01/01/04	350,879,900	552,773,549	201,893,649	63.5%	170,669,442	118.3%
01/01/01	316,389,108	426,280,953	109,891,845	74.2%	145,000,347	75.8%
01/01/99	248,967,040	374,455,997	125,488,957	66.5%	119,857,640	104.7%
01/01/98	240,982,371	394,330,873	153,348,502	61.1%	134,803,954	113.8%
01/01/97	174,065,213	291,956,757	117,891,544	59.6%	111,270,545	106.0%

The District's share of the UAAL, as of January 1, 2010 is approximately 2%.

See notes to required supplementary information.

WORCESTER REGIONAL RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	System Wide			Nashoba Regional School District	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) District's Percentage of System Wide Actual Contributions
2012	\$ 33,072,000	\$ 33,072,000	100%	\$ 745,059	2.25%
2011	31,200,000	31,200,000	100%	662,713	2.12%
2010	28,800,000	28,800,000	100%	502,932	1.75%
2009	26,400,000	26,400,000	100%	469,587	1.78%
2008	22,998,000	22,998,000	100%	397,682	1.73%
2007	21,983,000	21,983,000	100%	400,322	1.82%
2006	21,013,000	21,013,000	100%	352,813	1.68%
2005	17,562,000	17,562,000	100%	388,168	2.21%

The District's Actual Contributions equaled 100% of its Required Contributions for each year presented.

See notes to required supplementary information.

Other Postemployment Benefits Plan Schedules

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

The Schedule of Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
12/31/2011	\$ -	\$ 40,702,993	\$ 40,702,993	0%	\$ N/A	N/A
12/31/2009	-	75,120,075	75,120,075	0%	N/A	N/A
12/31/2006	-	49,752,457	49,752,457	0%	N/A	N/A

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2012	\$ 3,490,498	\$ 797,451	23%
6/30/2011	6,769,235	1,198,680	18%
6/30/2010	4,236,507	1,159,649	27%
6/30/2009	4,118,287	999,497	24%

The District implemented GASB Statement No. 45 for the fiscal year ended June 30, 2009. Information for prior years is not available.

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date.....	12/31/2011
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Payments increasing at 4.5%
Remaining amortization period.....	30 years, open
Asset valuation method.....	Market value

Actuarial Assumptions:

Investment rate of return.....	4.50%, pay-as-you-go scenario
Inflation rate.....	4.5%
Medical/drug cost trend rate.....	8.00%, graded to 5.0% over 6 years

Plan Membership:

Current retirees, beneficiaries, and dependents...	139
Current active members.....	<u>357</u>
Total.....	<u><u>496</u></u>

See notes to required supplementary information.

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

The District adopts an annual budget for the general fund in conformity with the guidelines described above. The original fiscal year 2012 approved budget for the general fund authorized \$43.7 million in appropriations, which included a carryover of \$391,000 of encumbrances from the prior year. There was \$388,354 of supplemental appropriations during the fiscal year, which related to the funding of school choice tuition costs.

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

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2012, is presented below:

Net change in fund balance, budgetary basis.....	\$ (373,599)
<u>Basis of accounting differences:</u>	
Recognition of revenue for on-behalf payments.....	4,739,000
Recognition of expenditures for on-behalf payments.....	<u>(4,739,000)</u>
Net change in fund balance, GAAP basis.....	<u>\$ (373,599)</u>

NOTE B – PENSION PLAN

The District contributes to the Worcester County Contributory Retirement System ("Retirement System"), a cost-sharing, multiple-employer defined benefit pension plan ("Plan") administered by the Worcester County Retirement Board. The Retirement System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. Plan members are required to contribute to the Retirement System at rates ranging from 5% to 11% of annual covered compensation. The District is required to pay into the Retirement System its share of the systemwide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information, following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information, following the notes to the basic financial statements, presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the District is one participating employer, as well as the District's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the District.

The following actuarial methods and assumptions were used in the Retirement System's most recent actuarial valuation:

Actuarial Methods and Assumptions:

Valuation Date.....	January 1, 2010
Actuarial Cost Method.....	Individual Entry Age Normal
Amortization Method.....	Increasing dollar amount at 4.0% per year
Remaining Amortization Period.....	28 years remaining as of December 31, 2011
Asset Valuation Method.....	The actuarial value of assets is the market value of assets as of the valuation date reduced by varying percentages of the sum of gains and losses from prior years. The actuarial value of assets is further constrained to be not less than 80% or more than 120% of market value.

Actuarial Assumptions:

Investment rate of return.....	8.0%
Projected salary increases.....	3.0%
Cost of living adjustments.....	3.0% of the pension amount, capped at \$420

Plan Membership:

Active members.....	6,236
Inactive members.....	2,324
Disabled members.....	215
Retired participants and beneficiaries receiving benefits.....	<u>2,686</u>
Total.....	<u><u>11,461</u></u>

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

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

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

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets. Because fiscal 2009 was the District's initial year of implementation of GASB Statement 45, information for prior years is not available.

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

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