

NASHOBA REGIONAL SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2014

NASHOBA REGIONAL SCHOOL DISTRICT

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2014

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Independent Auditor's Report

To the Honorable School Committee
Nashoba Regional School District
Bolton, Massachusetts 01740

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nashoba Regional School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Nashoba Regional School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Nashoba Regional School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014, on our consideration of the Nashoba Regional School District's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nashoba Regional School District's internal control over financial reporting and compliance.

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

October 27, 2014

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Nashoba Regional School District (the "District"), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2014. 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 position* presents information on all assets, liabilities and deferred inflows/outflows of resources, with the difference as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected revenues and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by member town assessments and intergovernmental revenues (*governmental activities*) 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 two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental 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, the District has several governmental funds that are aggregated and shown as nonmajor governmental funds.

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 position may serve over time as a useful indicator of a government’s financial position. Assets exceeded liabilities by \$746,000 at the close of 2014. Key components of the District’s governmental financial position are listed below.

	2014	2013
Assets:		
Current assets.....	\$ 10,450,357	\$ 10,013,653
Capital assets.....	20,025,973	20,395,249
Total assets.....	30,476,330	30,408,902
Liabilities:		
Current liabilities (excluding debt).....	3,328,674	2,872,439
Noncurrent liabilities (excluding debt).....	20,536,795	17,587,383
Current debt.....	500,000	500,000
Noncurrent debt.....	5,365,000	5,865,000
Total liabilities.....	29,730,469	26,824,822
Net Position:		
Net investment in capital assets.....	14,160,973	14,030,249
Restricted.....	129,005	116,029
Unrestricted.....	(13,544,117)	(10,562,198)
Total net position.....	\$ 745,861	\$ 3,584,080

Net position of \$14.2 million reflects its net 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 position of \$129,000 represents resources that are subject to external restrictions on how they may be used, such as grants. The remaining balance of unrestricted net position reflects a deficit balance totaling \$13.5 million. This deficit is due to the fact that at June 30, 2014 the District has recognized and recorded a \$20.5 million other postemployment liability.

Governmental Activities

The governmental activities net position decreased by \$2.8 million in 2014. The decrease in net position is due to the recognition of a \$2.9 million expense for other postemployment benefits (see Note 11).

	<u>2014</u>	<u>2013</u>
Program revenues:		
Charges for services.....	\$ 2,365,908	\$ 2,322,091
Operating grants and contributions.....	7,422,430	7,187,717
General Revenues:		
Member town assessments.....	36,400,446	35,337,613
Intergovernmental.....	8,623,601	8,597,704
Unrestricted investment income.....	19,912	14,161
Miscellaneous.....	55,734	125,793
Total revenues.....	<u>54,888,031</u>	<u>53,585,079</u>
Expenses:		
System wide.....	3,731,783	4,174,832
Employee benefits.....	13,778,995	13,596,128
Insurance.....	108,847	110,962
Health services.....	681,760	686,517
Facilities.....	3,848,920	3,447,418
Substitute teachers.....	447,338	432,666
Curriculum.....	648,068	480,530
Special education.....	7,981,092	7,970,115
Technology.....	1,292,042	1,066,947
Athletics.....	545,705	502,693
Nashoba Regional High School.....	6,809,194	6,803,622
Luther Burbank Middle school.....	1,561,747	1,619,029
Center School.....	3,101,704	3,015,914
Hale Middle School.....	1,400,552	1,497,071
Mary Rowlandson Elementary School.....	2,553,353	2,519,591
Florence Sawyer School.....	4,331,122	4,300,385
Federal and state grants.....	1,275,969	1,567,240
Extended day.....	314,130	309,438
Athletic revolving.....	171,669	226,555
Cafeteria.....	786,403	820,405
Other special revenue.....	2,182,270	1,210,740
Interest.....	173,587	187,726
Total expenses.....	<u>57,726,250</u>	<u>56,546,524</u>
Change in net assets.....	(2,838,219)	(2,961,445)
Net position, beginning of year.....	<u>3,584,080</u>	<u>6,545,525</u>
Net position, end of year.....	<u>\$ 745,861</u>	<u>\$ 3,584,080</u>

Revenues increased by \$1.3 million from the prior year. This was due to a \$1.1 million increase in member town assessments and a \$457,000 increase in on-behalf payments for teacher's retirement benefits. Otherwise, changes in revenues and expenses closely paralleled the increase in the demand for technology, 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 District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, governmental funds reported combined ending fund balances of \$7.3 million of which \$3.7 million is for the general fund, and \$3.6 million is for nonmajor funds. Cumulatively there was a decrease of \$22,000 in fund balances from the prior year.

The general fund is the chief operating fund. At the end of the current year total fund balance equaled \$3.7 million; of which \$2.3 million was unassigned and \$1.3 million was assigned and \$150,000 was committed. 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 5% of current year general fund expenditures, while total fund balance represents 7% of that same amount. See Note 8 for further details.

The general fund increased by \$148,000, which is due to favorable budgetary results. The District planned to use \$1.1 million of excess and deficiency to fund the operating budget, however actual revenues exceeded budgeted by \$379,000 and actual expenditures were less than budgeted by \$946,000.

Budget Administration

The Nashoba Regional School District adopts an annual budget for its general fund. A budget to actual 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.

Capital and Debt Administration

The District maintains an 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 \$5.9 million of outstanding long-term debt at year-end. Of which, \$3.8 million relates to high school additions and renovations, and \$2.1 million relates to athletic field renovations.

The major capital activity during the current year related to the construction of the new concession stand, the purchase of a John Deere tractor and a dump truck with a plow and sander.

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 POSITION

JUNE 30, 2014

	<u><i>Primary Government</i></u>
	<u>Governmental Activities</u>
ASSETS	
CURRENT:	
Cash and cash equivalents.....	\$ 10,450,357
NONCURRENT:	
Capital assets, net of accumulated depreciation:	
Nondepreciable.....	37,913
Depreciable.....	<u>19,988,060</u>
TOTAL ASSETS.....	<u>30,476,330</u>
LIABILITIES	
CURRENT:	
Warrants payable.....	1,267,342
Accrued payroll.....	1,648,572
Accrued interest.....	74,181
Payroll withholdings.....	238,580
Other liabilities.....	17,999
Compensated absences.....	82,000
Bonds payable.....	500,000
NONCURRENT:	
Other postemployment benefits.....	20,536,795
Bonds payable.....	<u>5,365,000</u>
TOTAL LIABILITIES.....	<u>29,730,469</u>
NET POSITION	
Net investment in capital assets.....	14,160,973
Restricted for:	
Gifts and grants.....	129,005
Unrestricted.....	<u>(13,544,117)</u>
TOTAL NET POSITION.....	<u>\$ 745,861</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
<i>Governmental Activities:</i>				
System wide.....	\$ 3,731,783	\$ -	\$ -	\$ (3,731,783)
Employee benefits.....	13,778,995	-	5,427,402	(8,351,593)
Insurance.....	108,847	-	-	(108,847)
Health services.....	681,760	-	-	(681,760)
Facilities.....	3,848,920	-	-	(3,848,920)
Substitute teachers.....	447,338	-	-	(447,338)
Curriculum.....	648,068	-	-	(648,068)
Special education.....	7,981,092	-	481,831	(7,499,261)
Technology.....	1,292,042	-	-	(1,292,042)
Athletics.....	545,705	-	-	(545,705)
Nashoba Regional High School.....	6,809,194	-	-	(6,809,194)
Luther Burbank Middle School.....	1,561,747	-	-	(1,561,747)
Center School.....	3,101,704	-	-	(3,101,704)
Hale Middle School.....	1,400,552	-	-	(1,400,552)
Mary Rowlandson Elementary School....	2,553,353	-	-	(2,553,353)
Florence Sawyer School.....	4,331,122	-	-	(4,331,122)
Federal and state grants.....	1,275,969	-	1,338,134	62,165
Extended day.....	314,130	484,355	-	170,225
Athletic revolving.....	171,669	238,573	1,373	68,277
Cafeteria.....	786,403	730,517	152,327	96,441
Other special revenue.....	2,182,270	912,463	21,363	(1,248,444)
Interest.....	173,587	-	-	(173,587)
Total governmental activities.....	\$ <u>57,726,250</u>	\$ <u>2,365,908</u>	\$ <u>7,422,430</u>	\$ <u>(47,937,912)</u>

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2014

	Primary Government
	Governmental Activities
Changes in net position:	
Net (expense) revenue from previous page.....	\$ <u>(47,937,912)</u>
<i>General revenues:</i>	
Member town assessments.....	36,400,446
Intergovernmental.....	8,623,601
Unrestricted investment income.....	19,912
Departmental and other.....	<u>55,734</u>
Total general revenues and transfers.....	<u>45,099,693</u>
Change in net position.....	(2,838,219)
<i>Net position:</i>	
Beginning of year.....	<u>3,584,080</u>
End of year.....	\$ <u><u>745,861</u></u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2014

ASSETS	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 6,706,200	\$ 3,744,157	\$ 10,450,357
LIABILITIES:			
Warrants payable.....	\$ 1,125,870	\$ 141,472	\$ 1,267,342
Accrued payroll.....	1,648,572	-	1,648,572
Payroll withholdings.....	238,580	-	238,580
Other liabilities.....	17,999	-	17,999
TOTAL LIABILITIES.....	<u>3,031,021</u>	<u>141,472</u>	<u>3,172,493</u>
FUND BALANCES:			
Restricted.....	-	3,602,685	3,602,685
Committed.....	150,000	-	150,000
Assigned.....	1,272,452	-	1,272,452
Unassigned.....	2,252,727	-	2,252,727
TOTAL FUND BALANCES.....	<u>3,675,179</u>	<u>3,602,685</u>	<u>7,277,864</u>
TOTAL LIABILITIES AND FUND BALANCES.....	<u>\$ 6,706,200</u>	<u>\$ 3,744,157</u>	<u>\$ 10,450,357</u>

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2014

Total governmental fund balances.....		\$ 7,277,864
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		20,025,973
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(74,181)
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.....	(5,865,000)	
Other postemployment benefits.....	(20,536,795)	
Compensated absences.....	<u>(82,000)</u>	
Net effect of reporting long-term liabilities.....		<u>(26,483,795)</u>
Net position of governmental activities.....		<u>\$ 745,861</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2014

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Member town assessments.....	\$ 36,400,446	\$ -	\$ 36,400,446
Intergovernmental.....	13,086,704	2,454,760	15,541,464
Departmental and other.....	55,734	2,870,475	2,926,209
Investment income.....	19,912	-	19,912
TOTAL REVENUES.....	49,562,796	5,325,235	54,888,031
EXPENDITURES:			
Current:			
System wide.....	3,852,941	-	3,852,941
Employee benefits.....	10,829,583	-	10,829,583
Insurance.....	108,847	-	108,847
Health services.....	681,760	-	681,760
Facilities.....	3,847,920	-	3,847,920
Substitute teachers.....	447,338	-	447,338
Curriculum.....	648,068	-	648,068
Special education.....	7,512,712	468,380	7,981,092
Technology.....	1,290,042	-	1,290,042
Athletics.....	545,705	-	545,705
Nashoba Regional High School.....	6,192,104	131,288	6,323,392
Luther Burbank Middle School.....	1,560,747	-	1,560,747
Center School.....	3,097,072	-	3,097,072
Hale Middle School.....	1,399,552	-	1,399,552
Mary Rowlandson Elementary School.....	2,554,353	-	2,554,353
Florence Sawyer School.....	4,329,122	-	4,329,122
Federal and state grants.....	-	1,275,969	1,275,969
Extended day.....	-	314,130	314,130
Athletic revolving.....	-	171,669	171,669
Cafeteria.....	-	786,403	786,403
Other special revenue.....	-	2,182,270	2,182,270
Debt service:			
Maturing debt.....	500,000	-	500,000
Interest.....	182,107	-	182,107
TOTAL EXPENDITURES.....	49,579,973	5,330,109	54,910,082
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(17,177)	(4,874)	(22,051)
OTHER FINANCING SOURCES (USES):			
Transfers in.....	165,000	-	165,000
Transfers out.....	-	(165,000)	(165,000)
TOTAL OTHER FINANCING SOURCES (USES).....	165,000	(165,000)	-
NET CHANGE IN FUND BALANCES.....	147,823	(169,874)	(22,051)
FUND BALANCES AT BEGINNING OF YEAR.....	3,527,356	3,772,559	7,299,915
FUND BALANCES AT END OF YEAR.....	\$ 3,675,179	\$ 3,602,685	\$ 7,277,864

See notes to basic financial statements.

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

YEAR ENDED JUNE 30, 2014

Net change in fund balances - total governmental funds.....		\$ (22,051)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....	407,906	
Depreciation expense.....	<u>(777,182)</u>	
Net effect of reporting capital assets.....		(369,276)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Debt service principal payments.....		500,000
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	(6,000)	
Net change in accrued interest on long-term debt.....	8,520	
Net change in other postemployment benefits accrual.....	<u>(2,949,412)</u>	
Net effect of recording long-term liabilities and amortizing deferred losses....		<u>(2,946,892)</u>
Change in net position of governmental activities.....		<u>\$ (2,838,219)</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2014

	Private Purpose Trust Funds	Agency Funds
ASSETS		
CURRENT:		
Cash and cash equivalents.....	\$ <u>687</u>	\$ <u>213,608</u>
LIABILITIES		
Liabilities due depositors.....	<u>-</u>	<u>213,608</u>
NET POSITION		
Held in trust for education scholarships.....	\$ <u><u>687</u></u>	\$ <u><u>-</u></u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2014

		Private Purpose Trust Funds
NET POSITION AT BEGINNING OF YEAR.....	\$	687
NET POSITION AT END OF YEAR.....	\$	687

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

Additionally, any other governmental or enterprise 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 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.

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 year of the purchase.

H. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an

acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

Governmental Fund Financial Statements

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

I. 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 position. Any residual balances outstanding between the governmental activities are reported in the statement of net position as “internal balances”.

Fund Financial Statements

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

J. 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 position. 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.

K. Net position and Fund Equity

Government-Wide Financial Statements (Net position)

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

Net position has been restricted for the following:

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

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

Fund Financial Statements (Fund Balances)

Governmental fund balances are classified as 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.

L. Long-term debt

Government-Wide Financial Statements

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

M. Investment Income

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

N. 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.

O. Fund Deficits

Individual fund deficits exist, at June 30, 2014, within the nonmajor governmental funds. These deficits will be funded through receipts and other available funds in year 2015.

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

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

Q. 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 year-end, the carrying amount of deposits totaled \$9,025,447 and the bank balance totaled \$9,034,155. Of the bank balance, \$862,100 was covered by Federal Depository Insurance, \$7,635,582 was insured by the Depositors Insurance Fund and \$536,473 was insured by the Share Insurance Fund.

Investments

As of June 30, 2014, the District's investments totaled \$1,639,205 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, 2014, 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 year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 37,913	\$ -	\$ -	\$ 37,913
<u>Capital assets being depreciated:</u>				
Buildings.....	29,219,586	-	-	29,219,586
Land improvements.....	2,241,438	250,000	-	2,491,438
Machinery and equipment.....	590,821	109,800	-	700,621
Vehicles.....	273,639	48,106	(74,729)	247,016
Library and text books.....	1,536,091	-	-	1,536,091
Infrastructure.....	178,175	-	-	178,175
Total capital assets being depreciated.....	<u>34,039,750</u>	<u>407,906</u>	<u>(74,729)</u>	<u>34,372,927</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(11,034,119)	(610,878)	-	(11,644,997)
Land improvements.....	(177,311)	(125,672)	-	(302,983)
Machinery and equipment.....	(494,237)	(27,952)	-	(522,189)
Vehicles.....	(273,639)	(4,811)	74,729	(203,721)
Library and text books.....	(1,529,104)	(5,087)	-	(1,534,191)
Infrastructure.....	(174,004)	(2,782)	-	(176,786)
Total accumulated depreciation.....	<u>(13,682,414)</u>	<u>(777,182)</u>	<u>74,729</u>	<u>(14,384,867)</u>
Total capital assets being depreciated, net.....	<u>20,357,336</u>	<u>(369,276)</u>	<u>-</u>	<u>19,988,060</u>
Total governmental activities capital assets, net.....	<u>\$ 20,395,249</u>	<u>\$ (369,276)</u>	<u>\$ -</u>	<u>\$ 20,025,973</u>

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

Systemwide.....	\$ 25,948
High School.....	748,602
Center school.....	<u>2,632</u>
Total depreciation expense - governmental activities.....	<u>\$ 777,182</u>

NOTE 4 - INTERFUND TRANSFERS

Interfund transfers, for the year ended June 30, 2014, totaled \$165,000 and consisted of budgeted transfers to the general fund from the extended day program.

NOTE 5 – OPERATING LEASE

The District leases computer equipment to support its educational, business finance and other technological needs. Total costs for the leases were \$325,000 for the year ended June 30, 2014. The future minimum lease payments for these leases are as follows:

<u>Years</u> <u>Ending June 30</u>	<u>Governmental</u> <u>Activities</u>
2015.....	\$ 324,507
2016.....	176,902
2017.....	90,382
2018.....	<u>10,382</u>
 Total.....	 \$ <u><u>602,173</u></u>

NOTE 6 – SHORT-TERM FINANCING

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

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

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

There was no short-term debt outstanding at June 30, 2014.

NOTE 7 - 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.

Details related to the outstanding indebtedness at June 30, 2014, and the debt service requirements are as follows:

Purpose	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
Addition & Renovation to High School...	2025	\$ 6,605,000	3.00%-5.00%	\$ 4,155,000	\$ -	\$ (350,000)	\$ 3,805,000
Athletic Field Renovations.....	2028	2,210,000	2.00%	2,210,000	-	(150,000)	2,060,000
Total bonds and notes payable.....				\$ 6,365,000	\$ -	\$ (500,000)	\$ 5,865,000

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

Fiscal Year	Principal	Interest	Total
2015.....	\$ 500,000	\$ 186,566	\$ 686,566
2016.....	500,000	166,066	666,066
2017.....	495,000	145,566	640,566
2018.....	495,000	132,216	627,216
2019.....	495,000	118,866	613,866
2020.....	495,000	105,516	600,516
2021.....	490,000	92,216	582,216
2022.....	490,000	75,086	565,086
2023.....	490,000	58,386	548,386
2024.....	490,000	41,512	531,512
2025.....	490,000	24,468	514,468
2026.....	145,000	7,250	152,250
2027.....	145,000	4,350	149,350
2028.....	145,000	1,450	146,450
Total.....	\$ 5,865,000	\$ 1,159,514	\$ 7,024,514

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, 2014, the District had no authorized and unissued debt.

Changes in Long-term Liabilities

During the year ended June 30, 2014, 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.....	\$ 6,365,000	\$ -	\$ (500,000)	\$ 5,865,000	\$ 500,000
Other postemployment benefits..	17,587,383	3,955,950	(1,006,538)	20,536,795	-
Compensated absences.....	<u>76,000</u>	<u>82,000</u>	<u>(76,000)</u>	<u>82,000</u>	<u>82,000</u>
Total.....	<u>\$ 24,028,383</u>	<u>\$ 4,037,950</u>	<u>\$ (1,582,538)</u>	<u>\$ 26,483,795</u>	<u>\$ 582,000</u>

NOTE 8 – 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, 2014.

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, 2014, the governmental fund balances consisted of the following:

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
FUND BALANCES			
Restricted for:			
Federal and State grants..... \$	-	\$ 129,005	\$ 129,005
Other revolving funds.....	-	2,705,981	2,705,981
Athletic funds.....	-	279,652	279,652
School lunch fund.....	-	488,047	488,047
Committed to:			
Other postemployment benefits.....	150,000	-	150,000
Assigned to:			
System wide.....	29,779	-	29,779
Health services.....	4,176	-	4,176
Facilities.....	51,190	-	51,190
Curriculum.....	23,457	-	23,457
Special education.....	18,574	-	18,574
Technology.....	33,423	-	33,423
Nashoba Regional High School.....	54,772	-	54,772
Luther Burbank Middle School.....	4,928	-	4,928
Center School.....	20,458	-	20,458
Hale Middle School.....	11,366	-	11,366
Mary Rowlandson Elementary School.....	7,181	-	7,181
Florence Sawyer School.....	13,148	-	13,148
E&D used for subsequent year's budget.....	1,000,000	-	1,000,000
Unassigned.....	<u>2,252,727</u>	<u>-</u>	<u>2,252,727</u>
TOTAL FUND BALANCES..... \$	<u>3,675,179</u>	<u>3,602,685</u>	<u>7,277,864</u>

NOTE 9 – RISK FINANCING

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District participates in premium-based health care plans for its active employees and 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, 2014, 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 10 - 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 \$5,427,402 for the year ended June 30, 2014 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 years ended June 30, 2014, 2013, and 2012 were \$764,574, \$741,696, and \$745,059, respectively, which equaled its required contribution for each year.

NOTE 11 – 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 2014, the District contributed \$1,006,538 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.....	\$	3,763,809
Interest on net OPEB obligation.....		791,432
Adjustment to annual required contribution.....		<u>(599,291)</u>
Annual OPEB cost (expense).....		3,955,950
Contributions made.....		<u>(1,006,538)</u>
Increase in net OPEB obligation.....		2,949,412
Net OPEB obligation--beginning of year.....		<u>17,587,383</u>
Net OPEB obligation--end of year.....	\$	<u><u>20,536,795</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the prior two years is as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2014	\$ 3,955,950	25%	\$ 20,536,795
6/30/2013	3,849,434	25%	17,587,383
6/30/2012	3,619,466	22%	14,626,926

Funded Status and Funding Progress – As of December 31, 2013, the most recent actuarial valuation date, the unfunded actuarial accrued liability (UAAL) for benefits was \$45,407,088, 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, 2013, 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 7.5% initially, graded to 5% over 5 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, 2014 is 30 years.

NOTE 12 - COMMITMENTS

The District appropriates annually those amounts necessary for transportation of its students. For the year ended June 30, 2014, regular day and special education transportation expenditures totaled \$1.6 million and \$729,000, respectively. The regular day transportation contract expires on June 30, 2015 and a special education transportation contract was executed that will expire on June 30, 2016.

NOTE 13 - 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, 2014, 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, 2014, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2014.

NOTE 14 – 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 2004, the amount appropriated to create the fund was equal to 0.25% of the District's prior year budget. Each year after 2004, the balance was increased based on a percentage of the prior year's budget. At the end of 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 years 2010, 2011, 2012 and 2013.

The District used the remaining supplemental reserve balance, totaling \$49,191, as a funding source for the 2014 budget.

NOTE 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2014, the following GASB pronouncements were implemented:

- GASB Statement #65, *Items Previously Reported as Assets and Liabilities*. The implementation of this pronouncement required additional disclosure in the notes to the basic financial statements on deferred outflows of resources and deferred inflows of resources.
- GASB Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future years:

- The GASB issued Statement #67, *Financial Reporting for Pension Plans*, which is required to be implemented in 2015.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in 2015.
- The GASB issued Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which is required to be implemented simultaneously with GASB Statement #68 in 2015.

Management is currently assessing the impact that 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

YEAR ENDED JUNE 30, 2014

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
REVENUES:				
Member town assessments.....	\$ -	\$ 36,400,446	\$ 36,400,446	\$ 36,400,446
Intergovernmental.....	-	7,335,530	7,335,530	7,335,530
Miscellaneous.....	-	-	-	-
Investment income.....	-	20,000	20,000	20,000
TOTAL REVENUES.....	-	43,755,976	43,755,976	43,755,976
EXPENDITURES:				
Current:				
System wide.....	25,859	4,062,739	4,088,598	4,042,607
Employee benefits.....	-	5,627,574	5,627,574	5,777,074
Insurance.....	-	124,000	124,000	124,000
Health services.....	206	710,216	710,422	689,907
Facilities.....	173,067	3,680,589	3,853,656	3,936,656
Substitute teachers.....	-	272,000	272,000	449,919
Curriculum.....	20,823	612,855	633,678	676,519
Special education.....	18,594	7,690,608	7,709,202	7,539,202
Technology.....	11,795	1,199,825	1,211,620	1,326,768
Athletics.....	-	545,414	545,414	545,754
Nashoba Regional High School.....	27,079	6,501,938	6,529,017	6,338,068
Luther Burbank Middle School.....	104	1,636,342	1,636,446	1,611,360
Center School.....	20,550	3,069,876	3,090,426	3,123,821
Hale Middle School.....	6,156	1,517,539	1,523,695	1,443,137
Mary Rowlandson Elementary School.....	2,401	2,584,990	2,587,391	2,564,730
Florence Sawyer School.....	8,760	4,537,364	4,546,124	4,499,741
Debt service:				
Maturing debt.....	-	500,000	500,000	500,000
Interest.....	-	182,107	182,107	182,107
TOTAL EXPENDITURES.....	315,394	45,055,976	45,371,370	45,371,370
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(315,394)	(1,300,000)	(1,615,394)	(1,615,394)
OTHER FINANCING SOURCES (USES):				
Transfers in.....	-	165,000	165,000	165,000
NET CHANGE IN FUND BALANCE.....	(315,394)	(1,135,000)	(1,450,394)	(1,450,394)
BUDGETARY FUND BALANCE,				
Beginning of year.....	3,527,356	3,527,356	3,527,356	3,527,356
BUDGETARY FUND BALANCE, End of year.....	\$ 3,211,962	\$ 2,392,356	\$ 2,076,962	\$ 2,076,962

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$	36,400,446	\$ -	\$ -
	7,659,302	-	323,772
	55,734	-	55,734
	19,912	-	(88)
	<u>44,135,394</u>	<u>-</u>	<u>379,418</u>
	3,852,941	29,779	159,887
	5,402,181	-	374,893
	108,847	-	15,153
	681,760	4,176	3,971
	3,847,920	51,190	37,546
	447,338	-	2,581
	648,068	23,457	4,994
	7,512,712	18,574	7,916
	1,290,042	33,423	3,303
	545,705	-	49
	6,192,104	54,772	91,192
	1,560,747	4,928	45,685
	3,097,072	20,458	6,291
	1,399,552	11,366	32,219
	2,554,353	7,181	3,196
	4,329,122	13,148	157,471
	500,000	-	-
	182,107	-	-
	<u>44,152,571</u>	<u>272,452</u>	<u>946,347</u>
	<u>(17,177)</u>	<u>(272,452)</u>	<u>1,325,765</u>
	<u>165,000</u>	<u>-</u>	<u>-</u>
	147,823	\$ <u>(272,452)</u>	\$ <u>1,325,765</u>
	<u>3,527,356</u>		
\$	<u>3,675,179</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 plan 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)
01/01/12	\$ 436,671,982	\$ 982,796,782	\$ 546,124,800	\$ 44.4%	\$ 238,952,079	\$ 228.5%
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, 2014 is approximately 2%.

See notes to required supplementary information.

WORCESTER REGIONAL RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

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	
2014	\$ 37,510,000	\$ 37,510,000	100%	\$ 764,574	2.04%	
2013	33,056,000	33,056,000	100%	741,696	2.24%	
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 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)
12/31/2013	\$ -	\$ 45,407,088	\$ 45,407,088	0%	\$ N/A	N/A
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

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2014	\$ 3,763,809	\$ 1,006,538	27%
6/30/2013	3,689,636	888,977	24%
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.....	December 31, 2013
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.....	7.5%, graded to 5.0% over 5 years

Plan Membership:

Current retirees, beneficiaries, and dependents...	186
Current active members.....	<u>350</u>
 Total.....	 <u><u>536</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 year.

The District adopts an annual budget for the general fund in conformity with the guidelines described above. The original 2014 approved budget for the general fund authorized \$45,371,370 million in appropriations, which included a carryover of \$315,394 of encumbrances from the prior year. The District did not approve any supplemental appropriations during the year.

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 year ended June 30, 2014, is presented below:

Net change in fund balance, budgetary basis.....	\$ 147,823
<u>Basis of accounting differences:</u>	
Recognition of revenue for on-behalf payments.....	5,427,402
Recognition of expenditures for on-behalf payments.....	<u>(5,427,402)</u>
Net change in fund balance, GAAP basis.....	<u>\$ 147,823</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:

Valuation Date.....	January 1, 2012
Actuarial Cost Method.....	Individual Entry Age Normal
Amortization Method.....	Increasing at 4.0% per year, level dollar for ERI liability for certain units
Remaining Amortization Period.....	28 years remaining as of July 1, 2012
Asset Valuation Method.....	The actuarial value of assets is the market value of assets as of the valuation date reduced by the sum of: a) 80% of gains and losses of the prior year, b) 60% of gains and losses of the second prior year, c) 40% of gains and losses of the third prior year, d) 20% of gains and losses of the fourth prior year. Investment gains and losses are determined by the excess or deficiency of the expected return over the actual return on the market value. The actuarial valuation of assets is further constrained to be not less than 80% or more than 120% of market value.

Actuarial Assumptions:

Investment rate of return.....	8.00%
Projected salary increases.....	3.00%
Cost of living adjustments.....	3.00% of the pension amount capped at \$420 per year.

Plan Membership:

Active members.....	2,742
Inactive members.....	1,874
Disabled members.....	233
Retired participants and beneficiaries receiving benefits.....	<u>6,377</u>
Total.....	<u>11,226</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 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.