

WACHUSETT REGIONAL SCHOOL DISTRICT

**REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS**

FISCAL YEAR ENDED JUNE 30, 2013

WACHUSETT REGIONAL SCHOOL DISTRICT

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

TABLE OF CONTENTS

Independent Auditor's Report.....	1
Management's Discussion and Analysis	4
Basic Financial Statements	10
Statement of Net Position.....	11
Statement of Activities	12
Governmental funds – balance sheet.....	14
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net position.....	15
Governmental funds – statement of revenues, expenditures and changes in fund balances	16
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities	17
Fiduciary funds – statement of fiduciary net position	18
Fiduciary funds – statement of changes in fiduciary net position.....	19
Notes to basic financial statement.....	20
Required Supplementary Information.....	36
Schedule of revenues, expenditures and changes in fund balance – general fund – budget and actual	37
Other Postemployment Benefits Plan Schedules.....	38
Other postemployment benefit plan funding progress and employer contributions	39
Other postemployment benefit plan actuarial methods and assumptions.....	40
Retirement system schedules of funding progress and employer contributions	41
Retirement system schedule of funding progress	42
Retirement system schedule of employer contributions.....	43
Notes to required supplementary information	44



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Independent Auditor's Report

To the Honorable School Committee
Wachusett Regional School District
Jefferson, Massachusetts 01522

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 Wachusett Regional School District (District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Wachusett Regional School District, as of June 30, 2013, 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 24, 2013, on our consideration of the Wachusett 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 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 Wachusett 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 24, 2013

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Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Wachusett 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, 2013. 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 Wachusett Regional School District's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

The *statement of net position* presents information on all assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., 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 administration, operations and maintenance, other school services, instruction, fixed charges, other costs and interest. The district had no business-type activities.

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

The District has several governmental funds. Excluding the general fund and a major federal grants fund, the remaining governmental funds are aggregated and shown as nonmajor governmental funds.

The Wachusett 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 schedule of funding progress, and schedule of employer contributions related to its participation in the Worcester Regional Retirement System, its OPEB schedule of funding progress and employer contributions, and the OPEB actuarial methods and assumptions.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. Assets exceed liabilities by \$9.8 million at the close of FY2013. Key components of the District’s governmental financial position are listed below.

	<u>2013</u>	<u>2012</u>
Assets:		
Current assets.....	\$ 8,023,234	\$ 6,157,478
Capital assets.....	<u>79,987,474</u>	<u>82,274,638</u>
Total assets.....	<u>88,010,708</u>	<u>88,432,116</u>
Liabilities:		
Current liabilities (excluding debt).....	6,541,955	5,840,034
Noncurrent liabilities (excluding debt).....	46,724,440	38,046,493
Current debt.....	1,725,000	1,685,000
Noncurrent debt.....	<u>23,220,000</u>	<u>24,945,000</u>
Total liabilities.....	<u>78,211,395</u>	<u>70,516,527</u>
Net Position:		
Net investment in capital assets.....	55,152,897	55,803,649
Restricted.....	21,421	244,196
Unrestricted.....	<u>(45,375,005)</u>	<u>(38,132,256)</u>
Total net position.....	<u>\$ 9,799,313</u>	<u>\$ 17,915,589</u>

Net position of \$55.2 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.

An additional portion of the net position, \$21 thousand represents resources that are subject to external restrictions on how they may be used. The remaining balance (deficit) of *unrestricted net position* \$45.4 million reflects the impact of the other postemployment benefit liability.

At the end of the current fiscal year, the District is able to report positive balances in two of three categories of net position.

Governmental Activities

The governmental activities decreased \$8.1 million in Fiscal 2013. This was primarily due to the District recording the net increase in the GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions liability. In fiscal 2013, the District, based on its actuarial valuation, recognized an increase of \$8.7 million for its OPEB liability and the fact that depreciation expense exceeded principal payments of long-term debt. These decreases were offset by the fact the general fund had an operating surplus of \$929 thousand and the non-major fund had an operating surplus of \$357 thousand.

	<u>2013</u>	<u>2012</u>
Program revenues:		
Charges for services.....	\$ 2,876,173	\$ 2,941,611
Operating grants and contributions.....	22,454,666	21,889,852
General revenues:		
Member town assessments.....	50,623,683	48,229,704
Grants and contributions not restricted to specific programs.....	24,638,140	22,593,986
Unrestricted investment income.....	25,161	18,971
Miscellaneous.....	72,203	180,336
Total revenues.....	<u>100,690,026</u>	<u>95,854,460</u>
Expenses:		
Salaries.....	50,558,942	49,085,676
Employee benefits and insurance.....	21,128,513	21,128,000
Pupil services.....	1,898,924	2,017,925
Instructional support.....	8,248,287	10,558,668
Operations and maintenance.....	5,456,824	5,206,196
Special education tuitions.....	1,676,584	2,037,892
Other operations costs.....	13,851,960	13,401,520
Transportation.....	4,895,773	5,107,172
Interest.....	1,090,495	1,143,140
Total expenses.....	<u>108,806,302</u>	<u>109,686,189</u>
Change in net position.....	<u>\$ (8,116,276)</u>	<u>\$ (13,831,729)</u>

Total revenues increased \$4.8 million from the prior year. This was primarily due to an increase in member town assessments and state aid, as well as an increase in federal and state grants. For the most part, the increase in revenues closely paralleled the costs associated with the demand for student services and the increases in appropriations.

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 Wachusett 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 Wachusett 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 \$2 million, an increase of \$1.1 million in comparison with the prior year. The primary reasons for the increase relates to the fact the general fund had an operating surplus of \$929 thousand and the non-major fund had an operating surplus of \$357 thousand. These surpluses were offset by a deficit in the federal grant fund of \$153 thousand which is due to the timing of federal grant expenditures versus the receipt of grant revenue.

The general fund is the chief operating fund. At the end of the current fiscal year unassigned fund balance of the general fund was \$1 million. Assigned fund balance totals \$79 thousand and represents amounts assigned for encumbrances. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 1.1% of current year general fund expenditures, while total fund balance represents 1.2% of current year general fund expenditures.

At the end of the current fiscal year, the Federal Grant Fund has an ending fund balance of \$21 thousand. This represents a decrease of \$153 thousand from the prior year. The primary reason for the decrease is the timing of grant expenditures versus the receipt of revenues.

General Fund Budgetary Highlights

The difference between the original budget of \$79.3 million and the final amended budget of \$77.9 million amounted to a net decrease of \$1.4 million. The decrease is mainly due to reductions in the salary, instructional support and transportation line items.

During fiscal year 2013, the District overspent the employee benefits and insurance line item budget by approximately \$500 thousand and the pupil services line item by \$270. These deficits will be funded through revenues and available funds in fiscal year 2014.

Capital and Debt Administration

Capital Assets. The District's investment in capital assets as of June 30, 2013, amounts to \$80 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and machinery and equipment. The total decrease in the District's investment in capital assets for the current year was \$2.3 million which equaled the current year depreciation. There were no capital additions or disposals during fiscal year 2013.

Debt Administration. Outstanding long-term debt of the District, as of June 30, 2013, totaled \$24.9 million, of which \$24.1 million is attributable to the high school addition and renovation project and \$784 thousand is related to the oil remediation project.

During the current fiscal year, the District made debt payments totaling \$1.7 million. The District did not issue any long-term debt during fiscal year 2013.

The District did not have any short-term debt outstanding at fiscal year end. Please refer to the notes 4, 6, and 7 of the financial statements for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Wachusett 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 Office of the Comptroller, Wachusett Regional School District 1745 Main Street, Jefferson, MA 01522.

Basic Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2013

	Primary Government
	Governmental Activities
ASSETS	
CURRENT:	
Cash and cash equivalents.....	\$ 5,140,749
Receivables, net of allowance for uncollectibles:	
Intergovernmental.....	2,882,485
NONCURRENT:	
Capital assets, net of accumulated depreciation:	
Nondepreciable.....	695,000
Depreciable.....	79,292,474
TOTAL ASSETS.....	88,010,708
LIABILITIES	
CURRENT:	
Warrants payable.....	482,212
Payroll liabilities.....	146,258
Accrued payroll.....	5,375,643
Accrued interest.....	456,475
Compensated absences.....	81,367
Bonds.....	1,725,000
NONCURRENT:	
Compensated absences.....	325,470
Other postemployment benefits.....	46,398,970
Bonds.....	23,220,000
TOTAL LIABILITIES.....	78,211,395
NET POSITION	
Net investment in capital assets.....	55,152,897
Restricted for:	
Other purposes.....	21,421
Unrestricted.....	(45,375,005)
TOTAL NET POSITION.....	\$ 9,799,313

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary Government:				
<i>Governmental Activities:</i>				
Salaries.....	\$ 50,558,942	\$ -	\$ -	\$ (50,558,942)
Employee benefits and insurance.....	21,128,513	-	-	(21,128,513)
Pupil services.....	1,898,924	1,753,342	444,144	298,562
Instructional support.....	8,248,287	1,034,717	6,847,604	(365,966)
Operations and maintenance.....	5,456,824	88,114	-	(5,368,710)
Special education tuitions.....	1,676,584	-	-	(1,676,584)
Other operations costs.....	13,851,960	-	12,336,000	(1,515,960)
Transportation.....	4,895,773	-	2,826,918	(2,068,855)
Interest.....	1,090,495	-	-	(1,090,495)
Total Governmental Activities.....	\$ 108,806,302	\$ 2,876,173	\$ 22,454,666	\$ (83,475,463)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2013

	Primary Government
	Governmental Activities
Changes in net position:	
Net (expense) revenue from previous page.....	\$ (83,475,463)
<i>General revenues:</i>	
Member town assessments.....	50,623,683
Grants and contributions not restricted to specific programs.....	24,638,140
Unrestricted investment income.....	25,161
Miscellaneous.....	72,203
Total general revenues and transfers.....	<u>75,359,187</u>
Change in net position.....	(8,116,276)
<i>Net Position:</i>	
Beginning of year.....	<u>17,915,589</u>
End of year.....	\$ <u><u>9,799,313</u></u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2013

ASSETS	<u>General</u>	<u>Federal Grant Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 5,071,884	\$ -	\$ 68,865	\$ 5,140,749
Receivables, net of uncollectibles:				
Intergovernmental.....	1,569,618	450,220	862,647	2,882,485
Due from other funds.....	<u>393,836</u>	<u>-</u>	<u>-</u>	<u>393,836</u>
TOTAL ASSETS.....	\$ <u>7,035,338</u>	\$ <u>450,220</u>	\$ <u>931,512</u>	\$ <u>8,417,070</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 425,556	\$ 34,963	\$ 21,693	\$ 482,212
Payroll liabilities.....	146,258	-	-	146,258
Accrued payroll.....	5,375,643	-	-	5,375,643
Due to other funds.....	<u>-</u>	<u>393,836</u>	<u>-</u>	<u>393,836</u>
TOTAL LIABILITIES.....	<u>5,947,457</u>	<u>428,799</u>	<u>21,693</u>	<u>6,397,949</u>
 FUND BALANCES:				
Restricted.....	-	21,421	934,275	955,696
Assigned.....	79,143	-	-	79,143
Unassigned.....	<u>1,008,738</u>	<u>-</u>	<u>(24,456)</u>	<u>984,282</u>
TOTAL FUND BALANCES.....	<u>1,087,881</u>	<u>21,421</u>	<u>909,819</u>	<u>2,019,121</u>
TOTAL LIABILITIES AND FUND BALANCES.....	\$ <u>7,035,338</u>	\$ <u>450,220</u>	\$ <u>931,512</u>	\$ <u>8,417,070</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2013

Total governmental fund balances.....		\$ 2,019,121
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		79,987,474
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(456,475)
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.....	(24,945,000)	
Other postemployment benefits.....	(46,398,970)	
Compensated absences.....	<u>(406,837)</u>	
Net effect of reporting long-term liabilities.....		<u>(71,750,807)</u>
Net position of governmental activities.....		\$ <u><u>9,799,313</u></u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2013

	General	Federal Grant Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Member town assessments.....	\$ 50,623,683	\$ -	\$ -	\$ 50,623,683
Intergovernmental.....	39,866,230	2,899,890	4,294,449	47,060,569
Departmental and other.....	-	-	2,908,410	2,908,410
Investment income.....	25,161	-	-	25,161
Miscellaneous.....	72,203	-	-	72,203
TOTAL REVENUES.....	90,587,277	2,899,890	7,202,859	100,690,026
EXPENDITURES:				
Current:				
Salaries.....	49,056,186	826,347	695,514	50,578,047
Employee benefits and insurance.....	12,420,573	-	-	12,420,573
Pupil services.....	131,030	-	1,767,894	1,898,924
Instructional support.....	1,693,319	2,226,845	4,346,510	8,266,674
Operations and maintenance.....	3,110,326	-	59,334	3,169,660
Special education tuitions.....	1,676,584	-	-	1,676,584
Other operations costs.....	13,847,560	-	4,400	13,851,960
Transportation.....	4,895,773	-	-	4,895,773
Debt service:				
Maturing debt.....	1,685,000	-	-	1,685,000
Interest.....	1,113,867	-	-	1,113,867
TOTAL EXPENDITURES.....	89,630,218	3,053,192	6,873,652	99,557,062
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	957,059	(153,302)	329,207	1,132,964
OTHER FINANCING SOURCES (USES):				
Transfers in.....	-	-	27,737	27,737
Transfers out.....	(27,737)	-	-	(27,737)
TOTAL OTHER FINANCING SOURCES (USES).....	(27,737)	-	27,737	-
NET CHANGE IN FUND BALANCES.....	929,322	(153,302)	356,944	1,132,964
FUND BALANCES AT BEGINNING OF YEAR.....	158,559	174,723	552,875	886,157
FUND BALANCES AT END OF YEAR.....	\$ 1,087,881	\$ 21,421	\$ 909,819	\$ 2,019,121

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, 2013

Net change in fund balances - total governmental funds.....		\$ 1,132,964
<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>		
Depreciation expense.....		<u>(2,287,164)</u>
<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.....		<u>1,685,000</u>
<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.....	37,492	
Net change in accrued interest on long-term debt.....	23,372	
Other postemployment benefits.....		<u>(8,707,940)</u>
Net effect of recording long-term liabilities and amortizing deferred losses.....		<u>(8,647,076)</u>
Change in net position of governmental activities.....		<u>\$ (8,116,276)</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2013

	Private Purpose Trust Funds	Agency Funds
ASSETS		
CURRENT:		
Cash and short-term investments.....	\$ 204,798	\$ 387,017
LIABILITIES		
Warrants payable.....	-	4,908
Other liabilities.....	-	382,109
TOTAL LIABILITIES.....	-	387,017
NET POSITION		
Held in trust for education scholarships.....	\$ 204,798	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FISCAL YEAR ENDED JUNE 30, 2013

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Net investment income (loss):	
Interest.....	<u>1,552</u>
<u>DEDUCTIONS:</u>	
Scholarships.....	<u>3,770</u>
CHANGE IN NET POSITION.....	(2,218)
NET POSITION AT BEGINNING OF YEAR.....	<u>207,016</u>
NET POSITION AT END OF YEAR.....	<u>\$ 204,798</u>

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Wachusett Regional School District, Jefferson, 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 Holden, Sterling, Rutland, Paxton and Princeton (Member Towns) and provides public education for pupils from member Towns in grades kindergarten through twelve. A twenty-member School Committee governs the District, which consists of elected members from the member towns.

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

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

The government-wide financial statements (i.e., statement of net position and the statement of 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 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.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

The *federal grant fund* is used to account for all activity related to the District's federal grant receipts and disbursements.

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 trust arrangements, under 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 \$25,000 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

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. 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 currently has no 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 currently has no items that qualify for reporting in this category.

I. Net Position Flow Assumption

Government-Wide Financial Statements (Net Position)

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 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.

J. Interfund Receivables and Payables

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

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net position. 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.

K. Interfund Transfers

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

Government-Wide Financial Statements

Operating transfers between and within governmental funds are eliminated from the governmental activities in the statement of net position.

Fund Financial Statements

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

L. Net Position and Fund Equity*Government-Wide Financial Statements (Net Position)*

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

Net position have been “restricted for” the following:

“Other specific purposes” represents restrictions placed on assets from outside parties.

Fund Financial Statements (Fund Balances)

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

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“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.

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

M. 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 general government expenditures.

N. 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).

O. 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.

P. Fund Deficits

Individual fund deficits exist at June 30, 2013, within the nonmajor governmental funds. These deficits will be funded through grants, and other available funds in fiscal year 2014.

Q. 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.

R. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 – CASH AND INVESTMENTS

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 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 a bank failure, Wachusett Regional School District's deposits may not be returned to it. The District's investment policy states that the District should only do business with financial institutions that have a rating in the top three categories by at least one of the nationally recognized rating organizations. Also, the Treasurer shall look to maintain, to the extent allowed, deposits with financial institutions that offer FDIC and/or DIF insurance. At fiscal year-end, the carrying amount of deposits totaled \$5,726,706 and the bank balance totaled \$6,518,303. Of the bank balance, \$890,949 was covered by Federal Depository Insurance, \$1,380,122 was covered by Depositors Insurance Fund, \$250,000 was covered by the National Credit Union Administration, \$2,865,915 was covered by the Massachusetts Share Insurance Corporation (MSIC), and \$1,131,317 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

As of June 30, 2013, Wachusett Regional School Districts investments consisted of \$5,858 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 District's investment policy is to adhere to Massachusetts General Law, Chapter 44, Section 55 which sets the legal investments for the District. As of June 30, 2013, the District does not have any investments subject to custodial credit risk.

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 School participates in MMDT, which maintains a cash portfolio and a 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, 2013 are unrated.

Concentration of Credit Risk

The District places no limit on the amount that may be invested in any one issuer.

NOTE 3 – INTERGOVERNMENTAL RECEIVABLES

The District’s receivable balance represents expected future reimbursements from Federal and State agencies for grant expenditures incurred during fiscal year 2013, and the District’s fourth quarter CH71 transportation allotment.

NOTE 4 – CAPITAL ASSETS

Capital asset activity of the District for the fiscal year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 695,000	\$ -	\$ -	\$ 695,000
<u>Capital assets being depreciated:</u>				
Buildings.....	90,755,709	-	-	90,755,709
Machinery and equipment.....	38,142	-	-	38,142
Total capital assets being depreciated.....	90,793,851	-	-	90,793,851
<u>Less accumulated depreciation for:</u>				
Buildings.....	(9,176,071)	(2,287,164)	-	(11,463,235)
Machinery and equipment.....	(38,142)	-	-	(38,142)
Total accumulated depreciation.....	(9,214,213)	(2,287,164)	-	(11,501,377)
Total capital assets being depreciated, net.....	81,579,638	(2,287,164)	-	79,292,474
Total governmental activities capital assets, net.....	\$ 82,274,638	\$ (2,287,164)	\$ -	\$ 79,987,474

Depreciation expense was charged as follows:

Total depreciation expense - operations and maintenance..... \$ 2,287,164

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables at June 30, 2013 are summarized as follows:

	<u>Due To</u>
	Federal Grant Fund
<u>Due From:</u>	
General Fund.....	\$ <u>393,836</u>

Represents funding due to short-term cash flow requirements.

Interfund transfers for the fiscal year ended June 30, 2013, are summarized as follows:

	<u>Operating Transfers In</u>
	Non-Major Governmental Fund
<u>Operating Transfers Out:</u>	
General Fund.....	\$ <u>27,737</u>

Represents funding of Medicaid administration costs by the general fund.

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.

The District had the following short-term debt activity during fiscal year 2013:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2012	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2013
RAN	Revenue anticipation note.....	1.25	6/28/13	\$ -	\$ 17,500,000	\$ 17,500,000	\$ -

NOTE 7 - LONG-TERM DEBT

General Long-Term Debt:

State law permits the District, under the provisions of Chapter 71, Section 16, to authorize indebtedness not to exceed an amount approved by the Finance Advisory Board. Furthermore, written notice of the amount of debt authorized and general purpose of the debt must be given to the Board of Selectmen in each of the member Town’s comprising the District.

Details related to the outstanding indebtedness at June 30, 2013, and the debt service requirements are as follows:

Issue	Maturity Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2012	Issued	Redeemed	Outstanding at June 30, 2013
Municipal Purpose Bonds 2003.....	2024	\$ 20,000,000	2.40 - 5.00%	\$ 13,920,000	\$ -	\$ 915,000	\$ 13,005,000
Municipal Purpose Bonds 2004.....	2025	3,758,000	3.00 - 5.00%	2,740,000	-	165,000	2,575,000
Municipal Purpose Bonds 2009.....	2029	6,100,000	3.12 - 4.50%	5,185,000	-	305,000	4,880,000
Municipal Purpose Bonds 2010.....	2027	2,134,000	2.50 - 4.25%	1,860,000	-	135,000	1,725,000
Municipal Purpose Bonds 2011.....	2030	3,094,000	3.00 - 5.25%	2,925,000	-	165,000	2,760,000
Total governmental bonds payable.....				\$ 26,630,000	\$ -	\$ 1,685,000	\$ 24,945,000

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

Fiscal Year	Principal	Interest	Total
2014.....	\$ 1,725,000	\$ 1,058,723	\$ 2,783,723
2015.....	1,765,000	999,249	2,764,249
2016.....	1,820,000	932,483	2,752,483
2017.....	1,870,000	858,708	2,728,708
2018.....	1,925,000	769,046	2,694,046
2019.....	1,975,000	676,433	2,651,433
2020.....	2,035,000	582,233	2,617,233
2021.....	2,100,000	498,433	2,598,433
2022.....	2,160,000	410,159	2,570,159
2023.....	2,220,000	319,229	2,539,229
2024.....	2,295,000	224,545	2,519,545
2025.....	835,000	125,950	960,950
2026.....	565,000	95,431	660,431
2027.....	565,000	69,638	634,638
2028.....	465,000	45,588	510,588
2029.....	465,000	23,663	488,663
2030.....	160,000	8,400	168,400
Total.....	\$ 24,945,000	\$ 7,697,911	\$ 32,642,911

The District is subject to various debt limits by statute and may issue additional general obligation under the normal debt limit. At June 30, 2013, the District had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Technology Acquisition.....	\$ <u>1,000,000</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2013, the following changes occurred in long-term liabilities:

	Balance June 30, 2012	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2013	Current Portion
Long-term bonds and notes.....	\$ 26,630,000	\$ -	\$ (1,685,000)	\$ -	\$ 24,945,000	\$ 1,725,000
Compensated absences.....	444,329	-	-	(37,492)	406,837	81,367
Other postemployment benefits.....	<u>37,691,030</u>	-	-	<u>8,707,940</u>	<u>46,398,970</u>	-
Total.....	<u>\$ 64,765,359</u>	<u>\$ -</u>	<u>\$ (1,685,000)</u>	<u>\$ 8,670,448</u>	<u>\$ 71,750,807</u>	<u>\$ 1,806,367</u>

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The District adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as part of its fiscal year 2011 reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District’s financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund.

In addition to the nonspendable fund balances, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints. The District may have one or more of these categories.

- 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, 2013, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS			
	General	Federal Grant Fund	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES				
Restricted for:				
School revolving.....\$	-	-	562,825	\$ 562,825
Food Service.....	-	-	30,535	30,535
Federal grants.....	-	21,421	-	21,421
District Revolving.....	-	-	140,863	140,863
Athletic revolving.....	-	-	97,349	97,349
District capital projects.....	-	-	102,703	102,703
Assigned to:				
Pupil services.....	7,470	-	-	7,470
Instructional services.....	14,311	-	-	14,311
Operations and maintenance.....	53,192	-	-	53,192
Special education tuitions.....	4,170	-	-	4,170
Unassigned.....	1,008,738	-	(24,456)	984,282
TOTAL FUND BALANCES (DEFICIT).....\$	1,087,881	21,421	909,819	\$ 2,019,121

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 amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The District participates in premium-based health care plans for its employees.

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 \$12,336,000 for the fiscal year ended June 30, 2013 and, accordingly, are reported in the General Fund as Intergovernmental Revenues and Fixed Charge 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 455 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, 2013, 2011, and 2010 were \$1,313,722, \$1,254,316, and \$1,125,928, respectively, which equaled its required contribution for each fiscal year.

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 School is one participating employer, as well as the School'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 School.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The Wachusett Regional School District administers a single-employer defined benefit healthcare plan (the “Plan”). The Plan provides lifetime health and life insurance for eligible retirees and their spouses through the District’s group health and life insurance plans, which cover 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 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 2013, the District’s actual contributions to the plan were \$2,435,866.

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.....	\$ 11,816,097
Interest on net OPEB obligation.....	1,507,641
Adjustment to required annual contribution.....	<u>(2,179,932)</u>
Annual OPEB cost (expense).....	11,143,806
Contributions made.....	<u>(2,435,866)</u>
Increase in net OPEB obligation.....	8,707,940
Net OPEB obligation--beginning of year.....	<u>37,691,030</u>
Net OPEB obligation--end of year.....	<u><u>\$ 46,398,970</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 11,143,806	22%	\$ 46,398,970
6/30/2012	13,474,759	22%	37,691,030
6/30/2011	12,866,460	21%	27,183,064

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$99,201,962, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$50,650,294 and the ratio of the UAAL to the covered payroll was 195.9 percent.

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 July 1, 2012, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4.00% 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 9.00% decreasing by 1% for 5 years to an ultimate level of 5.00% per year. The UAAL is being amortized over a 30 year open period. The remaining amortization period at June 30, 2013 is 29 years.

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, 2013, 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, 2013, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2013.

NOTE 13 – COMMITMENTS

During fiscal year 2007, the District entered into a contract with Environmental Compliance Services, Inc. to provide remediation services associated with an oil tank leak that occurred within an underground storage tank. Remediation and monitoring is expected to last for approximately a ten year period and have costs in excess of \$1 million dollars. The District has obtained special legislation from the Department of Revenue to allow for bonding of these expenditures in the amount of \$1 million and was approved for a grant from the Department of Revenue of approximately \$150,000. As of June 30, 2013, approximately \$1,177,000 in costs has been incurred.

NOTE 14 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2013, the following GASB pronouncements were implemented:

- GASB Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #61, *The Financial Reporting Entity: Omnibus*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Financial statement changes include net assets changing to net position and invested in capital assets, net of related debt changing to net investment in capital assets. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.
- GASB Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*. The implementation of this pronouncement did not impact the basic financial statements.

Future implementation of GASB pronouncements:

- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented in fiscal year 2014.

Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Amounts Carried forward From Prior Year	Original Budget	Final Budget			
REVENUES:						
Member town assessments.....	\$ -	\$ 52,528,975	\$ 50,623,683	\$ 50,623,683	\$ -	\$ -
Intergovernmental.....	-	26,388,430	26,843,996	27,530,230	-	686,234
Investment income.....	-	-	-	25,161	-	25,161
Miscellaneous.....	-	-	-	72,203	-	72,203
TOTAL REVENUES.....	-	78,917,405	77,467,679	78,251,277	-	783,598
EXPENDITURES:						
Current:						
Salary.....	-	51,168,985	49,230,767	49,056,186	-	174,581
Employee benefits and insurance.....	-	10,883,319	11,921,105	12,420,573	-	(499,468)
Pupil services.....	-	214,296	138,230	131,030	7,470	(270)
Instructional support.....	-	1,990,261	1,753,776	1,693,319	14,311	46,146
Operations and maintenance.....	-	3,094,205	3,166,294	3,110,326	53,192	2,776
Special education tuitions.....	-	2,326,787	2,292,220	1,676,584	4,170	611,466
Other operations costs.....	-	1,423,745	1,520,951	1,511,560	-	9,391
Transportation.....	-	5,345,378	5,085,104	4,895,773	-	189,331
Debt service:						
Maturing debt.....	-	1,685,000	1,685,000	1,685,000	-	-
Interest.....	-	1,125,116	1,113,916	1,113,867	-	49
TOTAL EXPENDITURES.....	-	79,257,092	77,907,363	77,294,218	79,143	534,002
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	-	(339,687)	(439,684)	957,059	(79,143)	1,317,600
OTHER FINANCING SOURCES (USES):						
Transfers out.....	-	-	-	(27,737)	-	(27,737)
NET CHANGE IN FUND BALANCE.....	-	(339,687)	(439,684)	929,322	\$(79,143)	\$ 1,289,863
BUDGETARY FUND BALANCE,						
Beginning of year.....	232,632	232,632	232,632	232,632		
BUDGETARY FUND BALANCE, End of year.....	\$ 232,632	\$(107,055)	\$(207,052)	\$ 1,161,954		

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

JUNE 30, 2013

Schedule of Funding Progress

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)
7/1/2012	\$ -	\$ 99,201,962	\$ 99,201,962	0%	\$ 50,650,294	195.9%
7/1/2010	-	101,521,284	101,521,284	0%	46,154,418	220.0%
7/1/2009	-	105,063,662	105,063,662	0%	46,698,556	225.0%
7/1/2008	-	98,399,778	98,399,778	0%	43,911,705	224.1%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2013	\$ 11,816,097	\$ 2,435,866	21%
2012	13,959,620	2,966,793	21%
2011	13,169,976	2,699,588	20%
2010	11,825,427	3,132,504	26%
2009	11,218,885	2,744,458	24%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

FISCAL YEAR ENDED JUNE 30, 2013

Actuarial Methods:

Valuation date.....	July 1, 2012
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	30 year amortization payments
Remaining amortization period.....	29 years, open

Actuarial Assumptions:

Investment rate of return.....	4.00%, pay-as-you-go scenario
Medical/drug cost trend rate.....	9.00% decreasing by 1% to the ultimate level of 5.00% per year

Plan Membership:

Current retirees, beneficiaries, and dependents...	521
Current active members.....	<u>1,015</u>
Total.....	<u><u>1,536</u></u>

See notes to required supplementary information.

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)
01/01/12	\$ 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 June 30, 2013, is approximately 3.7%.

See notes to required supplementary information.

**Worcester Regional Retirement System
Schedule of Employer Contributions**

Fiscal Year Ended June 30	System Wide			Wachusett Regional School District	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) District's Percentage of System Wide Actual Contributions
2013	\$ 35,100,000	\$ 35,100,000	100%	\$ 1,313,722	3.74%
2012	33,100,000	33,100,000	100%	1,254,316	3.79%
2011	31,200,000	31,200,000	100%	1,125,928	3.61%
2010	28,800,000	28,800,000	100%	1,062,969	3.69%
2009	26,400,000	26,400,000	100%	974,352	3.69%
2008	22,998,000	22,998,000	100%	808,508	3.52%
2007	21,983,000	21,983,000	100%	807,059	3.67%
2006	21,013,000	21,013,000	100%	690,001	3.28%

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

See notes to required supplementary information.

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITYA. Budgetary Information

The District adopts a balanced budget that is approved by the Committee. The School District first determines the amounts required to be raised, after deducting for known revenue sources, to operate the School District. The anticipated assessment to each member community is then determined and the District seeks to obtain an appropriation from each member Community. Once all assessments are approved by the member communities the District's Treasurer certifies the assessment due to the Treasurers of all member communities.

The District's budget is approved in total by all member communities. The School Committee is limited to the total budget and has the authority to exceed individual budget line items during a given fiscal year.

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 2013 approved budget for the General Fund authorized approximately \$79.3 million in appropriations. The difference between the original budget of \$79.3 million and the final amended budget of \$77.9 million amounted to a net decrease of \$1.4 million. The decrease is mainly due to reductions in the salary, instructional support and benefits and insurance line items.

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, 2013, is presented below:

Net change in fund balance, budgetary basis.....	\$	929,322
<u>Basis of accounting differences:</u>		
Recognition of revenue for on-behalf payments.....		12,336,000
Recognition of expenditures for on-behalf payments.....		<u>(12,336,000)</u>
Net change in fund balance, GAAP basis.....	\$	<u>929,322</u>

C. Appropriation Deficits

During the fiscal year 2013, the District reported appropriation deficits in the employee benefit and insurance budget, and the pupil services budget. These deficits will be funded through revenues and available funds in fiscal year 2014.

NOTE B – OTHER POSTRETIREMENT BENEFITS

The District administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime health and life insurance for eligible retirees and their spouses through the District’s 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 (actual value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the District has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes 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, to 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.

Projections of benefits for financial reporting purposes are based on the substantive plan and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost 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.

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

NOTE C – PENSION PLAN

The District contributes to the Worcester Regional Retirement System (“Retirement System”), a cost-sharing, multiple-employer defined benefit pension plan (“Plan”) administered by the Worcester Regional 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, 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:

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