

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT**

**Report on the Examination
Of Basic Financial Statements**

For the Year Ended June 30, 2016

**SOUTHERN WORCESTER COUNTY REGIONAL VOCATIONAL
SCHOOL DISTRICT, MASSACHUSETTS
Report on the Examination of Basic Financial Statements
For the Year Ended June 30, 2016**

TABLE OF CONTENTS

	<u>Page</u>
TABLE OF CONTENTS	2
INDEPENDENT AUDITOR’S REPORT	3-4
MANAGEMENT’S DISCUSSION AND ANALYSIS	5-11
BASIC FINANCIAL STATEMENTS	12
Government-Wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Position	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues and Expenditures – Budgetary Basis – (Non-GAAP) – Budget and Actual – General Fund	19
Reconciliation of Revenues and Expenditures from Budgetary Basis to GAAP Basis	20
Statement of Fiduciary Net Position – Fiduciary Funds.....	21
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	22
Notes to the Financial Statements.....	23-43
REQUIRED SUPPLEMENTARY INFORMATION	44
Pension Plan Schedules	45-46
Other Post Employment Benefit Plan Schedule	47
SUPPLEMENTARY SCHEDULE	48
Schedule of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	49-50

Independent Auditor's Report

To the School Committee
Southern Worcester County Regional
Vocational School District
Charlton, Massachusetts

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 Southern Worcester County Regional Vocational School District, Charlton, Massachusetts, as of and for the year ended June 30, 2016, and related notes to the financial statements, which collectively comprise the Southern Worcester County Regional Vocational School District, Massachusetts' 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 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 Southern Worcester County Regional Vocational School District, Massachusetts, as of June 30, 2016, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in conformity 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, pension plan and other post employment benefit plan schedules as listed on 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southern Worcester County Regional Vocational School District, Massachusetts' basic financial statements. The Supplementary Schedule, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2017 on our consideration of the Southern Worcester County Regional Vocational School District, Massachusetts' 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 Southern Worcester County Regional Vocational School District, Massachusetts' internal control over financial reporting and compliance.

Scanlon and Associates, LLC

Scanlon & Associates, LLC
South Deerfield, Massachusetts

January 3, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Southern Worcester County Regional Vocational School District (the District), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

- The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$38,218,301 (net position) for the fiscal year reported. This compares to the previous year when assets and deferred outflows of resources exceeded liabilities by \$30,227,451 or an increase of \$7,990,850 (27%).
- The District's governmental funds reported total ending fund balance of \$3,303,905 this year showing a decrease of \$5,019,746 (60%) mainly as a result of the Bay Path Regional Technical High School renovation/addition project.
- The General Fund's total fund balance decreased \$95,617 (5%) to \$1,986,005. The ending General fund balance is 8% of revenues and 8% of expenditures and transfers out.
- The District's long term liabilities decreased by \$1,769,254 (4%) to \$43,673,110 during the fiscal year ending. This change was primarily due to an increase of \$3,000,000 in bond anticipation notes payable and of \$814,422 in the other post employment benefit (OPEB) liability and the decreases of \$2,765,563 in warrants and accounts payable and of \$2,453,532 in retainage payable as the renovation/addition project is coming to completion.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by member Town assessments and intergovernmental revenues (*governmental activities*). The governmental activities include all of the District's basic services, such as instructional and support services.

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. The District, like other school Districts, uses fund accounting that is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds are categorized as Governmental funds described below.

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 financial 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 decision. 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 maintains numerous individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund and renovation/addition project fund which are considered to be major funds. Data from the other individual governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the fiscal year 2016 budget at the functional level.

Fiduciary funds. *Fiduciary funds* are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

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.

Financial Highlights

Statement of Net Position Highlights

	Governmental Activities		
	2016	2015	Change
Assets:			
Current assets	\$ 7,862,076	\$ 15,038,158	\$ (7,176,082)
Capital assets	73,831,335	60,615,657	13,215,678
Total assets	81,693,411	75,653,815	6,039,596
Deferred Outflows of Resources:			
Deferred outflows related to pensions	287,000	16,000	271,000
Liabilities:			
Current liabilities (excluding debt)	1,796,308	7,045,751	(5,249,443)
Current debt	3,640,000	525,000	3,115,000
Noncurrent liabilities (excluding debt)	12,221,802	11,216,613	1,005,189
Noncurrent debt	26,015,000	26,655,000	(640,000)
Total liabilities	43,673,110	45,442,364	(1,769,254)
Deferred Inflows of Resources:			
Deferred inflows related to pensions	89,000	-	89,000
Net Position:			
Net investment in capital assets	43,961,085	33,189,657	10,771,428
Restricted	2,811,329	4,896,086	(2,084,757)
Unrestricted	(8,554,113)	(7,858,292)	(695,821)
Total net position	\$ 38,218,301	\$ 30,227,451	\$ 7,990,850

Financial Highlights

Statement of Activities Highlights

	Governmental Activities		
	2016	2015	Change
Program Revenues:			
Charges for services	\$ 1,131,999	\$ 1,110,319	\$ 21,680
Operating grants and contributions	4,818,447	4,312,021	506,426
Capital grants and contributions	8,353,566	19,086,359	(10,732,793)
General Revenues:			
Assessments to member communities	9,833,958	8,720,816	1,113,142
State Aid not restricted to specific programs	10,084,561	9,852,088	232,473
Unrestricted investment income	13,803	22,060	(8,257)
Miscellaneous	24,199	4,127	20,072
Total revenues	34,260,533	43,107,790	(8,847,257)
Expenses:			
Administration and benefits	793,074	1,063,358	(270,284)
Instruction	10,574,108	9,947,557	626,551
Other school services	4,366,984	4,244,106	122,878
Operation and maintenance	1,680,896	1,217,699	463,197
Fixed charges	6,116,095	5,069,940	1,046,155
Special education	1,207,952	1,342,528	(134,576)
Interest	972,101	864,490	107,611
Capital Acquisitions	-	36,322	(36,322)
Depreciation (unallocated)	558,473	420,181	138,292
Total expenses	26,269,683	24,206,181	2,063,502
Change in net position	7,990,850	18,901,609	(10,910,759)
Net position - beginning of year	30,227,451	11,325,842	18,901,609
Net position - end of year	\$ 38,218,301	\$ 30,227,451	\$ 7,990,850

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Assets and deferred outflows of resources exceeded liabilities by \$38,218,301 at the close of fiscal year 2016.

Net position of \$43,961,085 reflects its investment in capital assets (e.g., land, buildings and renovations, and vehicles 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 students; consequently, these assets are *not* available for future spending. Although the investment in its 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 \$2,811,329, represents resources that are subject to external restrictions on how they may be used. The remaining balance consists of *unrestricted net position* (\$8,554,113).

At the end of the current fiscal year, the District is able to report positive balances in two of the three categories of net position, both for the government as a whole, as well as for its separate governmental activities. The unrestricted governmental activities and government as a whole resulted in a negative

balance mainly due to the accrual of the OPEB obligation and net pension liabilities that are required under GASB to be recognized in the District's financial statements. These liabilities are presented on the statement of net position.

Change in Net position

During the current fiscal year, the District's net position increased by \$7,990,850 (27%). The key elements of the increase in net position for fiscal year 2016 was mainly attributed to an increase as a result the acquisition of \$13,774,151 in new capital assets exceeding the depreciation expense (normally spread out over the useful life of the asset) for the year of \$558,473 and a decrease as a result of recognizing this year's OPEB obligation of \$814,422.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, the general fund *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 \$3,303,905, a decrease of \$5,019,746 (60%) in comparison with the prior year.

Breakdown of the governmental funds and the percentage of total governmental fund balances they represent are as follows:

- Restricted fund balance - \$1,549,156 (47%).
- Committed fund balance - \$639,269 (19%).
- Assigned fund balance - \$443,176 (14%).
- Unassigned fund balance – \$672,304 (20%).

At the end of the fiscal year, the General Fund reported a fund balance of \$1,986,622 decreasing \$95,617 (5%) from the prior year. Of the \$1,986,005, the unassigned amount is \$1,542,829 (78%) and the assigned amount is \$443,176 (22%). General fund revenues, received primarily from two sources, were \$2,291,750 (11%) more than the prior fiscal year and expenditures also increased by \$2,735,403 (13%). Other activities in the General fund were net transfers out of \$63,910.

Of the total General fund revenues, member Town assessments were \$9,833,958 or 42% and intergovernmental receipts were \$11,108,032 or 47%. Increases in General fund revenues as compared to the prior year occurred mainly with in the assessments to member Towns of \$1,113,142 (13%) and in the Massachusetts Teachers Retirement Benefits (MTRB) on behalf payments of \$786,820 (47%).

The major changes in general fund expenditures from the prior fiscal year were as follows:

- Increase in instruction expenditures of \$879,233 (9%).
- Increase in fixed charges expenditures of \$900,581 (21%).
- Increase in debt service (principal and interest) of \$559,490 (54%).

Renovation/Addition Project Fund is used to account for renovating the existing high school and adding to the facility at the high school. The fund has a deficit balance of \$870,525 at the end of the fiscal year, decreasing by \$5,336,936 (119%). This amount was attributed to expenditures of \$13,345,002 exceeding revenues from the Massachusetts School Building Administration (MSBA) of \$8,008,066. Additionally, the District has issued temporary debt of \$3 million for this project.

General Fund Budgetary Highlights

The final general fund budget for fiscal year 2016 was \$21,408,705. This was an increase of \$1,417,751 (7%) over the previous year's budget.

There was an increase of \$200,000 between the total original budget and the total final amended budget. During the fiscal year, the School Committee authorized budget transfers to the original budget to accommodate differences from the original budget to the actual expenditures of the School District.

General fund expenditures were less than budgeted by \$397,006. Of the \$397,006 in under budget expenditures \$308,474 has been carried over to fiscal year 2017.

There is a negative variance in operation and maintenance of \$3,427 as the expenditures exceeded the budget for the year.

The variance with the final budget was a positive \$437,355 consisting of a revenue surplus of \$348,823 and an appropriation surplus of \$88,532.

Capital Asset and Debt Administration

Capital Assets: The District's investment in capital assets for its governmental activities at the end of the fiscal year totaled \$73,831,335 (net of accumulated depreciation). The investment in capital assets includes land, construction in progress, buildings and renovations, machinery, equipment and other and infrastructure.

This amount represents a net increase of \$13,215,678 from the prior year representing additions of \$13,774,151 and depreciation of \$558,473.

The capital events during the current fiscal year included the following:

- Various machinery and equipment for \$530,129.
- School renovation/addition project for \$13,244,022.

Debt Administration: The District's outstanding governmental debt, as of June 30, 2016, totaled \$26,655,000 for the Bay Path Regional Technical High School renovation/addition project.

The governmental activities currently have \$3,000,000 in bond anticipation notes outstanding for the renovation/addition project.

The District owes the Town of Charlton a special assessment for Phase II sewer improvements. The outstanding amount at June 30, 2016 is \$215,250.

Please refer to notes 3C, 3F and 3G for further discussion of the major capital and debt activity.

Fiscal Year 2017 School Budget

The Southern Worcester County Regional Vocational School District School Committee votes a budget for the next fiscal year at a School Committee meeting before the end of the fiscal year. The financial statements for June 30, 2016 do not reflect the fiscal year 2017 School Committee actions. The School Committee meeting on March 7, 2016 projected a fiscal year 2017 operating and capital budget as follows:

Operating	\$ 17,773,676
Transportation	1,384,337
Debt Service	1,588,741
Capital	94,660
	<u>\$ 20,841,414</u>

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, 57 Old Muggett Hill Road, Charlton, Massachusetts.

BASIC FINANCIAL STATEMENTS

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Primary Government Governmental Activities
ASSETS	
CURRENT:	
Cash and Cash Equivalents	\$ 6,836,521
Receivables, net of allowance for uncollectibles:	
Intergovernmental	1,025,555
Total current assets	7,862,076
NONCURRENT:	
Capital Assets, net of accumulated Depreciation:	
Nondepreciable	21,000
Depreciable	73,810,335
Total noncurrent assets	73,831,335
Total Assets	81,693,411
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	287,000
LIABILITIES	
CURRENT:	
Warrants and Accounts Payable	427,269
Accrued Payroll	1,053,489
Retainage Payable	22,000
Payroll Withholdings	8,167
Other	47,246
Accrued Interest	86,200
Compensated Absences	121,187
Betterment Payable	30,750
Bond Anticipation Notes Payable	3,000,000
Bonds Payable	640,000
Total current liabilities	5,436,308
NONCURRENT:	
Compensated Absences	484,750
Betterment Payable	184,500
OPEB Obligation Payable	7,515,552
Net Pension Liability	4,037,000
Bonds Payable	26,015,000
Total noncurrent liabilities	38,236,802
Total Liabilities	43,673,110
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	89,000
NET POSITION	
Net Investment in Capital Assets	43,961,085
Restricted for:	
Federal & State Grants	358,894
Capital Projects	2,129,475
Other Purposes	322,960
Unrestricted	(8,554,113)
Total Net Position	\$ 38,218,301

The Notes to the Financial Statements are an integral part of this Statement.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Program Revenues</u>				Net (Expenses) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Administration	\$ 793,074	\$ -	\$ -	\$ -	\$ (793,074)
Instruction	10,574,108	-	245,332	-	(10,328,776)
Other School Services	4,366,984	1,127,312	1,573,925	-	(1,665,747)
Operation and Maintenance	1,680,896	4,687	-	-	(1,676,209)
Fixed Charges	6,116,095	-	2,495,555	-	(3,620,540)
Special Education	1,207,952	-	503,635	-	(704,317)
Interest	972,101	-	-	-	(972,101)
Capital Acquisitions	-	-	-	8,353,566	8,353,566
Depreciation	558,473	-	-	-	(558,473)
Total Governmental Activities	26,269,683	1,131,999	4,818,447	8,353,566	(11,965,671)
General Revenues:					
Assessments to member communities					9,833,958
Grants & Contributions not restricted to specific programs					10,084,561
Unrestricted Investment Income					13,803
Other					24,199
Total General Revenues					19,956,521
Change in Net Position					7,990,850
Net Position:					
Beginning of year					30,227,451
End of year					\$ 38,218,301

The Notes to the Financial Statements are an integral part of this Statement.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General Fund	Renovation/ Addition Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 3,139,413	\$ 1,759,875	\$ 1,937,233	\$ 6,836,521
Receivables, net of allowances for accounts: Intergovernmental	153,743	494,545	377,267	1,025,555
Total Assets	\$ 3,293,156	\$ 2,254,420	\$ 2,314,500	\$ 7,862,076
Liabilities:				
Warrants and Accounts Payable	\$ 198,249	\$ 102,945	\$ 126,075	\$ 427,269
Accrued Payroll	1,053,489	-	-	1,053,489
Retainage Payable	-	22,000	-	22,000
Payroll withholdings	8,167	-	-	8,167
Other	47,246	-	-	47,246
Bond Anticipation Notes Payable	-	3,000,000	-	3,000,000
Total Liabilities	1,307,151	3,124,945	126,075	4,558,171
Fund Balances:				
Restricted	-	-	1,549,156	1,549,156
Committed	-	-	639,269	639,269
Assigned	443,176	-	-	443,176
Unassigned	1,542,829	(870,525)	-	672,304
Total Fund Balances	1,986,005	(870,525)	2,188,425	3,303,905
Total Liabilities and Fund Balance	\$ 3,293,156	\$ 2,254,420	\$ 2,314,500	\$ 7,862,076

The Notes to the Financial Statements are an integral part of this Statement.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT**

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

FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Renovation/ Addition Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Assessments to Member Towns	\$ 9,833,958	\$ -	\$ -	\$ 9,833,958
Charges for Services	-	-	1,131,999	1,131,999
Intergovernmental	11,108,032	8,008,066	1,588,940	20,705,038
Investment Income	13,803	-	343	14,146
MTRS On-behalf Payments	2,474,077	-	-	2,474,077
Gifts and Contributions	-	-	77,116	77,116
Other	24,199	-	-	24,199
Total Revenues	23,454,069	8,008,066	2,798,398	34,260,533
Expenditures:				
Current:				
Administration	807,511	-	-	807,511
Instruction	10,671,904	-	220,599	10,892,503
Other School Services	2,879,065	-	1,502,589	4,381,654
Operation and Maintenance	1,502,626	-	8,178	1,510,804
Fixed Charges	5,260,673	-	-	5,260,673
Acquisitions	66,662	-	-	66,662
Special Education	707,498	-	500,454	1,207,952
Capital Outlay	-	13,345,002	217,681	13,562,683
Debt Service:				
Principal	525,000	-	-	525,000
Interest and fees	1,064,837	-	-	1,064,837
Total Expenditures	23,485,776	13,345,002	2,449,501	39,280,279
Excess of Revenues Over (Under) Expenditures	(31,707)	(5,336,936)	348,897	(5,019,746)
Other Financing Sources (Uses):				
Operating Transfers In	-	-	63,910	63,910
Operating Transfers Out	(63,910)	-	-	(63,910)
Total Other Financing Sources (Uses)	(63,910)	-	63,910	-
Net Change in Fund Balances	(95,617)	(5,336,936)	412,807	(5,019,746)
Fund Balances, Beginning of Year	2,081,622	4,466,411	1,775,618	8,323,651
Fund Balances, End of Year	\$ 1,986,005	\$ (870,525)	\$ 2,188,425	\$ 3,303,905

The Notes to the Financial Statements are an integral part of this Statement.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT**

**Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Position**

For the Year Ended June 30, 2016

Total Governmental Fund Balances		\$ 3,303,905
Capital Assets (net) used in governmental activities are not financial resources and therefore, are not reported in the funds.		73,831,335
Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions.		198,000
Long Term liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds:		
Bonds Payable	\$ (26,655,000)	
Betterment Payable	(215,250)	
OPEB Obligation Payable	(7,515,552)	
Net Pension Liability	(4,037,000)	
Compensated Absences	<u>(605,937)</u>	(39,028,739)
In the statement of activities, interest is accrued on outstanding long term debt, whereas in the governmental funds interest is not reported until due.		<u>(86,200)</u>
Net Position of Governmental Activities		<u>\$ 38,218,301</u>

The Notes to the Financial Statements are an integral part of this Statement.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT**

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities**

For the Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds \$ (5,019,746)

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 are reported as depreciation expense:

Capital Outlay Purchases	\$ 13,774,151	
Depreciation	<u>(558,473)</u>	13,215,678

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:

Repayment of Betterment Principal	30,750	
Repayment of Debt Principal	<u>525,000</u>	555,750

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 governmental funds:

Net Change in Compensated Absences	1,854	
Net Change in OPEB Obligation Payable	(814,422)	
Net Change in Deferred Outflow/(Inflow) of Resources related to Pensions	182,000	
Net Change in Net Pension Liability	(223,000)	
Net Change in Accrued Interest on Long-Term Debt	<u>92,736</u>	<u>(760,832)</u>

Change in Net Position of Governmental Activities \$ 7,990,850

The Notes to the Financial Statements are an integral part of this Statement.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT**

**STATEMENT OF REVENUES AND EXPENDITURES - BUDGETARY BASIS -
(NON-GAAP) - BUDGET AND ACTUAL - GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts			Actual Budgetary Basis	Amounts Carried Forward to Next Year	Variance with Final Budget Positive (Negative)
	Amounts Carried		Final Budget			
	Forward from Prior Year	Original Budget				
Revenues:						
Assessments to Member Towns	\$ -	\$ 9,847,571	\$ 9,833,958	\$ 9,833,958	\$ -	\$ -
Intergovernmental	-	10,783,598	10,797,211	11,108,032	-	310,821
Investment Income	-	-	-	13,803	-	13,803
Miscellaneous	-	-	-	24,199	-	24,199
Total Revenues	-	20,631,169	20,631,169	20,979,992	-	348,823
Expenditures:						
Current:						
Administration	82,664	730,659	822,036	807,511	988	13,537
Instruction	377,172	10,104,480	10,894,612	10,671,904	169,546	53,162
Other School Services	8,058	2,858,139	2,916,665	2,879,065	27,222	10,378
Operation and Maintenance	121,208	1,464,609	1,609,917	1,502,626	110,718	(3,427)
Fixed Charges	-	2,999,465	2,792,133	2,786,596	-	5,537
Acquisitions	2,344	31,692	68,138	66,662	-	1,476
Special Education	-	838,376	715,365	707,498	-	7,867
Debt Service:						
Principal	-	525,000	525,000	525,000	-	-
Interest and fees	-	1,064,839	1,064,839	1,064,837	-	2
Total Expenditures	591,446	20,617,259	21,408,705	21,011,699	308,474	88,532
Excess of Revenues Over (Under) Expenditures	(591,446)	13,910	(777,536)	(31,707)	(308,474)	437,355
Other Financing Sources (Uses):						
Operating Transfers Out	-	(63,910)	(63,910)	(63,910)	-	-
Total Other Financing Sources (Uses)	-	(63,910)	(63,910)	(63,910)	-	-
Net Change in Budgetary Fund Balance	(591,446)	(50,000)	(841,446)	\$ (95,617)	\$ (308,474)	\$ 437,355
Other Budgetary Items:						
Free Cash and Other Reserves	-	50,000	250,000			
Prior Year Encumbrances	591,446	-	591,446			
Total Other Budgetary Items	591,446	50,000	841,446			
NET BUDGET	\$ -	\$ -	\$ -			

The Notes to the Financial Statements are an integral part of this Statement.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT**

**Reconciliation of Revenues and Expenditures
from Budgetary Basis to GAAP Basis**

For the Year Ended June 30, 2016

	Revenues	Expenditures
Reported on a Budgetary Basis	\$ 20,979,992	\$ 21,011,699
<i>Adjustments:</i>		
Recognition of Intergovernmental Revenue - "on behalf payments"	2,474,077	-
Recognition of Expenditures - "on behalf payments"	-	2,474,077
Reported on a GAAP Basis	\$ 23,454,069	\$ 23,485,776

The Notes to the Financial Statements are an integral part of this Statement.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT**

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2016

	Other Post Employment Benefits Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and Cash Equivalents	\$ -	\$ 42,882	\$ 205,098
Investments	150,282	-	-
Total Assets	150,282	42,882	205,098
LIABILITIES			
Due to Student Groups	-	-	205,098
Total Liabilities	-	-	205,098
NET POSITION			
Held in Trust for Other Purposes	\$ 150,282	\$ 42,882	\$ -

The Notes to the Financial Statements are an integral part of this Statement.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Other Post Employment Benefits Trust Fund	Private Purpose Trust Funds
Additions		
Employer Contributions	\$ 50,000	\$ -
Private Donations	-	13,085
Investment Income	3,801	55
Total Additions	53,801	13,140
Deductions:		
Scholarships	-	3,495
Total Deductions	-	3,495
Change in Net Position	53,801	9,645
Net Position at Beginning of Year	96,481	33,237
Net Position at End of Year	\$ 150,282	\$ 42,882

The Notes to the Financial Statements are an integral part of this Statement.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Southern Worcester County Regional Vocational School District, Charlton, Massachusetts (the 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. The District is comprised of the Towns of Auburn, Charlton, Dudley, North Brookfield, Oxford, Paxton, Rutland, Southbridge, Spencer and Webster. The District operates under a regional agreement made on January 18, 1967, and serves as a vocational high school consisting of grades nine through twelve. The form of government is an elected twenty member school committee, which is responsible for appointing a Superintendent who is the chief operating official for the District.

For financial reporting purposes, the basic financial statements include all funds, organizations, account groups, agencies, boards, commissions and institutions that are not legally separate from the District.

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/or significance of their relationship with the District are such that exclusion would cause the District's basic financial statements to be misleading or incomplete. In fiscal year 2016, there are no component units that meet the requirements of GASB-39 and GASB-61 for inclusion in the District's basic financial statements.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (e.g., statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. The District reports *Governmental activities*, which are primarily supported by member town assessments and intergovernmental revenues.

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

Fund Financial Statements

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and displayed in a single column.

Because governmental fund statements are presented using a measurement focus and basis of accounting different from that used in the government-wide statements' governmental column, a reconciliation is presented that briefly explains the adjustment necessary to reconcile ending net position and the change in net position.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

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 funds 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, as are the fiduciary fund financial statements. Under the modified accrual basis concept, revenues are recognized when earned and expenses are recorded when a liability is 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 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.
- Operating grants and contributions that are restricted to meeting the operational requirements of a specific function or segment.
- Capital grants and contributions that are restricted to meeting the capital requirements of a specific function or segment.

Assessments and other items not identifiable as program revenues are reported as general revenues.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

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.

Membership assessments are apportioned amongst capital and operating costs, less intergovernmental and other revenues, and are based upon student enrollment.

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 District reports the following major governmental funds:

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

The *renovation/addition project fund* is used to account for the Bay Path Vocational Technical High School renovation project.

The non-major governmental fund consists of other special revenue funds and capital projects that are aggregated and presented in the *non-major governmental funds* column on the governmental funds financial statements. The following describes the general use of this fund type:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Additionally, the District reports the following fund types:

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 government programs.

The *Other Post Employment Benefit Trust Fund* accounts for the activities of the District's OPEB plan, which accumulates resources for retiree medical and life insurance benefits.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

The *agency fund* is used to account for assets held in a purely custodial capacity and consists of student activity funds.

D. Cash and Cash Equivalents

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. 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.

The District maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption, "cash and cash equivalents".

E. Investments

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

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

All investments are carried at fair value.

F. Accounts Receivable

The recognition of revenues related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

Intergovernmental

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

Intergovernmental receivables are considered 100% collectible and, therefore, do not report an allowance for uncollectable.

G. Capital Assets

Capital assets, which include land, construction in progress, buildings and renovations, machinery, equipment and other, and infrastructure assets, are reported in the applicable governmental activity column of 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.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

All purchase and construction costs are capitalized based upon various dollar thresholds at the date of acquisition or construction with expected useful lives of greater than one year.

Capital Asset Type	Threshold
Land	\$ 25,000
Land Improvements	\$ 10,000
Buildings and Facilities	\$ 50,000
Building Improvements	\$ 25,000
Vehicles	\$ 10,000
Machinery and Equipment	\$ 7,500

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of fixed assets are as follows:

Capital Asset Type	Years
Buildings and renovations	7-40
Machinery, equipment and other	4-10
Infrastructure	20-40

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.

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

H. Interfund Receivables and Payables

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

In the 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.

In the fund financial statements, transactions of a buyer/seller nature between and within governmental funds are not eliminated from the individual fund statements.

I. 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.

In the government-wide financial statements, operating transfers between and within governmental funds are eliminated from the governmental activities in the statement of activities. Any residual balances outstanding between the governmental activities are reported in the statement of activities as "Transfers, net".

In the 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.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

J. Deferred Outflows/Inflows of Resources

Government-wide financial statements

The government-wide financial statements *Statement of Net Position* includes a separate section, listed below total assets, for *deferred outflows of resources*. This represents the usage of net position applicable for future period(s) and will not be recognized as expenditures until the future period to which it applies. Currently, the only item in this category is *deferred outflows related to pensions*.

In addition to liabilities, the *Statement of Net 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 and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the only item in this category is *deferred inflows related to pensions*.

K. Net Position and Fund Balances

Government-Wide Financial Statements (Net Position)

In the Governmental-Wide financial statements, the difference between the District's total assets, deferred outflow of resources and total liabilities represents net position. Net position displays three components – net investment in capital assets, restricted (distinguished between major categories of restrictions); and unrestricted. Unrestricted net position represents the net position available for future operations.

Net position classified as net investment in capital assets, consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Net position has been "restricted for" the following:

- "Federal and state grants" represents amounts restricted by the federal and state government for various programs.
- "Capital projects" represents amounts restricted for capital purposes.
- "Other purposes" represents restrictions placed on assets from outside parties.

Fund Financial Statements (Fund Balances)

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of those resources.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, – contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority,

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

which is the District's School committee can be modified through these actions. Committed amounts cannot be used for any other purpose unless the District removes or changes the specified use by taking the same type of action it employed to previously commit.

Assigned fund balance. This classification reflects the amounts constrained by the District's "intent" to be used for specific purposes, but are neither restricted nor committed. The business manager and school committee have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When the restricted and other fund balance resources are available for use, it is the District's policy to use restricted resources first, followed by committed, assigned, and unassigned amounts respectively.

L. Long-term Debt

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. Bonds payable are reported net of the applicable bond premium or discount.

In the 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.

M. Investment Income

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

N. Compensated Absences

The District grants to employees sick and vacation leave in varying amounts based upon collective bargaining agreements, state laws and executive policies.

In the government-wide financial statements, vested or accumulated vacation and sick leave are reported as liabilities and are expensed as incurred.

In the 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. Pension Benefits

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Southbridge Contributory Retirement System (the System) and the Massachusetts Teachers Retirement System (MTRS) are provided. Additions to and deductions from the fiduciary net position have been determined on the same basis as they are reported by the Systems. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable according to benefit terms. Investments are reported at their fair value.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

P. Post-Retirement Benefits

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 50% share of insurance premiums in the general fund in the fiscal year paid.

Q. Use of Estimates

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 revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

R. Total Column

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.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by the District's members and school committee.

Annually, the School Committee prepares a tentative budget, including capital costs. In accordance with the District Agreement, the School Committee adopts the annual operating and maintenance budget not later than 75 days to the earliest date on which the first business session of the annual Town meeting of any member Town is held. The final budget, divided between operating costs and capital costs, is then apportioned among the member Towns. The apportioned amount for each member Town must be certified to the Treasurers of such Towns within 30 days from the date on which said annual budget is adopted by the committee.

The general fund incurred a deficit budget variance of \$841,446. The District voted \$250,000 from the excess and deficiency account to fund the deficit budget and \$591,446 was carried forward from the previous year's encumbrances and continuing appropriations.

B. Assessments

Assessments are levied annually against the member Towns of the District for the fiscal year beginning July 1, and are due and payable in quarterly installments.

Most capital and operating costs of the District in excess of each Town's net minimum contribution are apportioned to the member Towns on the basis of their respective pupil enrollments in the District on October 1st of the preceding year. Certain costs, such as transportation and debt service, are outside of the net school spending requirements established by the Commonwealth. These costs are apportioned to the member towns based on either the above percentage or on a member-specific basis.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

For the year ended June 30, 2016, the assessments were calculated as follows:

	Operating Contribution	Transportation Contribution	Capital and Debt Contribution	Additional Local Contribution	Total Assessment
Auburn	\$ 928,093	\$ 51,508	\$ 214,151	\$ -	\$ 1,193,752
Charlton	1,394,996	104,101	197,299	-	1,696,396
Dudley	581,954	69,401	158,666	-	810,021
North Brookfield	324,100	24,941	60,732	15,057	424,830
Oxford	1,145,666	83,498	183,945	-	1,413,109
Paxton	115,375	5,964	62,322	14,723	198,384
Rutland	234,222	18,435	145,311	-	397,968
Southbridge	779,118	95,968	225,121	-	1,100,207
Spencer	872,978	82,414	144,516	34,130	1,134,038
Webster	1,181,268	86,209	197,776	-	1,465,253
Total	\$ 7,557,770	\$ 622,439	\$ 1,589,839	\$ 63,910	\$ 9,833,958

C. Deficit Fund Balances

The following fund has a deficit at June 30, 2016 as measured by the balance of the fund balance.

- The school renovation/addition project fund, a major fund, incurred a deficit of \$870,525. Temporary debt has been issued for \$3 million. The deficit will be eliminated upon receipt of additional Massachusetts School Building Administration (MSBA) funds or the issuance of permanent debt.

3. DETAILED NOTES

A. Cash and Investments

Custodial Credit Risks – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The government does not have a deposit policy for custodial credit risk. Deposits at June 30, 2016 were \$8,000,556. Of these, none were exposed to custodial credit risk as uninsured and uncollateralized.

Investment Policies

Investments of funds, except for trust funds, are generally restricted by Massachusetts General Laws, Chapter 44, Section 55. That statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust ("MMDT"), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

The MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office. According to the State Treasurer, the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

income instruments, including U. S. Government obligations and highly-rated corporate securities with maturities of one year or less.

As of June 30, 2016, the District had the following investments and maturities:

Investment Type	Fair Value
Other Investments:	
Equity mutual funds	\$ 150,282

Custodial Credit Risks - Investments

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the District's \$150,282 in investments, none are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department but not in the District's name. The District has no policy on custodial credit risk.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District does not have any exposure to credit risk as of June 30, 2016.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in one issuer. The District does not have more than 5 percent of the District's investments in one issuer.

B. Receivables

At June 30, 2016, receivables for the individual non-major governmental funds, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Major and Non-major governmental funds:			
Intergovernmental	\$ 1,025,555	\$ -	\$ 1,025,555

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

The composition of the intergovernmental receivables as of June 30, 2016 for government funds is as follows:

Governmental Funds:

General Fund:

Commonwealth of Massachusetts:

Department of Revenue:

Chapter 70 \$ 153,743

Renovation/Addition Project Fund:

Commonwealth of Massachusetts:

Massachusetts School Building Authority

School Building Assistance - capital portion 494,545

Nonmajor Governmental Funds:

U. S. Department of Agriculture

School lunch \$ 14,569

U. S. Department of Education

School title grants 66,853

Commonwealth of Massachusetts:

Department of Elementary and Secondary Education:

School lunch 345

Executive Office of Economic Development:

Skills Capital Grant 295,500

377,267
\$ 1,025,555

C. Capital Assets

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

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 21,000	\$ -	\$ -	\$ 21,000
Construction in progress	57,718,688	13,244,022	(70,962,710)	-
	<u>57,739,688</u>	<u>13,244,022</u>	<u>(70,962,710)</u>	<u>21,000</u>
Capital assets being depreciated:				
Buildings and renovations	6,272,893	69,642,195	-	75,915,088
Machinery, equipment and other	6,102,250	530,129	(7,500)	6,624,879
Infrastructure	1,195,006	1,320,515	-	2,515,521
Total capital assets being depreciated	<u>13,570,149</u>	<u>71,492,839</u>	<u>(7,500)</u>	<u>85,055,488</u>
Less accumulated depreciation for:				
Buildings and renovations	5,403,869	216,067	-	5,619,936
Machinery, equipment and other	4,729,970	286,873	(7,500)	5,009,343
Infrastructure	560,341	55,533	-	615,874
Total accumulated depreciation	<u>10,694,180</u>	<u>558,473</u>	<u>(7,500)</u>	<u>11,245,153</u>
Total capital assets being depreciated, net	<u>2,875,969</u>	<u>70,934,366</u>	<u>-</u>	<u>73,810,335</u>
Total governmental activities capital assets, net	<u>\$ 60,615,657</u>	<u>\$ 84,178,388</u>	<u>\$ (70,962,710)</u>	<u>\$ 73,831,335</u>

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

Depreciation expense was not charged to various functions/programs of the primary government, but, was recorded as unallocated in the Statement of Activities in the amount of \$558,473.

D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2016, are summarized below:

Transfers Out:	Transfers In: Nonmajor Governmental fund
General fund	\$ 63,910

E. Other Liabilities

The composition of the other liabilities as of June 30, 2016 for governmental funds is as follows:

Governmental Funds:	
Tailings (Unclaimed funds)	\$ 47,246

F. Short-Term Financing

Under the general laws of the Commonwealth and with the appropriate local authorization the District is authorized to borrow funds on a temporary basis to (1) fund current operations prior to the collection of revenues, by issuing revenue anticipation notes, (2) fund grants prior to reimbursements, by issuing grant anticipation notes, and (3) fund capital projects costs incurred prior to selling permanent debt by issuing bond anticipation notes.

Details related to the short-term debt activity of the governmental type fund are as follows:

Governmental Activities						
Purpose	Interest Rate	Final Maturity Date	Balance July 1, 2015	Renewed/ Issued	Retired/ Redeemed	Outstanding June 30, 2016
Bond Anticipation Note:						
School construction	0.75%	12/16/16	\$ -	\$ 3,000,000	\$ -	\$ 3,000,000

G. Long Term Debt

Betterment Assessment – Sewer Tie-In

In fiscal year 2003, the District tied into the municipal sewer lines and incurred a special assessment for Phase II Sewer Improvements from the Town of Charlton. The total cost of the assessment of \$615,000 will be paid in 20 equal annual installments of \$30,750, beginning in fiscal year 2004. No interest is accrued on the balance due. The outstanding amount at June 30, 2016 is \$215,250.

General Obligation Bonds

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for the governmental activities.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

General obligation bonds currently outstanding of the governmental type fund are as follows:

	Interest	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2016
Outside Debt:					
School renovation/addition project	2.84%	02/14/13	06/01/42	\$ 9,100,000	\$ 8,530,000
School renovation/addition project	3.84%	2/13/2014	6/1/2043	9,300,000	9,040,000
School renovation/addition project	3.29%	1/20/2015	6/1/2044	9,200,000	9,085,000
Total General Obligation Bonds					<u>\$ 26,655,000</u>

Future Debt Service

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

Year	Principal	Interest	Total
2017	\$ 640,000	\$ 929,553	\$ 1,569,553
2018	665,000	908,402	1,573,402
2019	680,000	886,403	1,566,403
2020	705,000	856,402	1,561,402
2021	725,000	840,553	1,565,553
2022-2026	3,985,000	3,798,382	7,783,382
2027-2031	4,610,000	3,132,443	7,742,443
2032-2036	5,375,000	2,341,322	7,716,322
2037-2041	6,380,000	1,278,985	7,658,985
2042-2044	2,890,000	180,423	3,070,423
	<u>\$ 26,655,000</u>	<u>\$ 15,152,868</u>	<u>\$ 41,807,868</u>

Changes in General Long-Term Liabilities

A summary of the changes in governmental activities long term liabilities during the year is as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due within One Year
Governmental activities:					
Bond Payable:					
General obligation bonds	\$ 27,180,000	\$ -	\$ 525,000	\$ 26,655,000	\$ 640,000
Betterment - sewer tie-in	246,000	-	30,750	215,250	30,750
Compensated absences	607,791	44,545	46,399	605,937	121,187
OPEB Obligation payable	6,701,130	814,422	-	7,515,552	-
Net pension liability	3,814,000	223,000	-	4,037,000	-
Governmental activity Long-term liabilities	<u>\$ 38,548,921</u>	<u>\$ 1,081,967</u>	<u>\$ 602,149</u>	<u>\$ 39,028,739</u>	<u>\$ 791,937</u>

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

Loans Authorized and Unissued - Memorandum Only

Under the general laws of the Commonwealth of Massachusetts a District must authorize debt at a District meeting. This authorized debt does not have to be actually issued at that time and remains authorized until the debt is actually issued or District meeting votes to rescind the authorized debt.

Loan authorizations that have not been issued as of June 30, 2016 and are not reflected in the District's financial statements are as follows:

Date District Meeting Authorized	Purpose	Amount
08/06/12	Baypath regional vocational high school renovation/addition project	<u>\$ 1,097,825</u>

Note: The District meeting authorizations are subject to approval of the District's member Towns. Approvals were completed through Towns' Annual and Special Town Meetings.

The above authorization has been reduced to reflect the Commonwealth of Massachusetts School Building Assistance grant receipts to pay for the project's allowable costs.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

H. Fund Balances

The following is a summary of the District's Governmental fund balances at the year ended June 30, 2016:

	General Fund	Renovation/ Addition Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Restricted:				
Grants	\$ -	\$ -	\$ 358,894	\$ 358,894
Revolving funds	-	-	867,302	867,302
Gifts and donations	-	-	238,133	238,133
Reserve for debt	-	-	84,827	84,827
	-	-	1,549,156	1,549,156
Committed:				
Capital improvement projects	-	-	639,269	639,269
Assigned:				
Administration and benefits	988	-	-	988
Instruction	169,546	-	-	169,546
Other school services	27,222	-	-	27,222
Operation and maintenance	110,718	-	-	110,718
Subsequent year's expenditures	134,702	-	-	134,702
	443,176	-	-	443,176
Unassigned:				
General fund	1,542,829	-	-	1,542,829
Deficit special revenue funds	-	(870,525)	-	(870,525)
	1,542,829	(870,525)	-	672,304
Total Governmental fund balances	\$ 1,986,005	\$ (870,525)	\$ 2,188,425	\$ 3,303,905

I. Special Trust Funds

Stabilization Fund

Under Section 16 G 1/2 of Chapter 71 of the Massachusetts General Laws, a regional school district, upon a majority vote of all members of the regional school committee and with approval of a majority of the local appropriating authorities of member municipalities establish a stabilization fund. The District may appropriate in any year an amount not exceeding five percent of the aggregate amount apportioned to the member municipalities for the preceding fiscal year or such larger amount as may be approved by the Director of Accounts. The aggregate amount in the fund at any time shall not exceed five percent of the combined equalized valuations of the member municipalities. Any interest shall be added to and become a part of the fund. The stabilization fund may be appropriated by vote of two-thirds of all the members of the regional district school committee for any purpose for which regional school districts may borrow money or for such other district purposes as the director of accounts may approve.

At June 30, 2016, the balance in the stabilization fund is \$351,048 and is reported in the General Fund as unassigned fund balance.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

4. OTHER INFORMATION

A. Risk Management

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. The District has obtained a variety of commercial liability insurance policies which passes the risk of loss listed above to independent third parties. Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingent Liabilities

Litigation

Litigation is subject to many uncertainties, and the outcome of individual matters is not always predictable. Although the amount of the liability, if any, at June 30, 2016, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the District at June 30, 2016.

Federal Financial Assistance

The District receives significant financial assistance from numerous federal and state agencies in the form of grants and entitlements. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit procedures prescribed under the Single Audit Act Amendments of 1996. Any disallowed expenditures resulting from such audits become a liability of the District.

The outcome of lawsuits and any findings with respect to disallowed expenditures is not expected to materially affect the financial condition of the District.

C. Pension Plan

Plan Description

The District is a member of the Southbridge Contributory Retirement System (the System). The System is a cost-sharing multiple-employer public employee retirement system administered by the Southbridge Retirement Board (the Board). Massachusetts General Laws (MGL), Chapter 32, assigns authority to establish the System and amend benefit provisions of the plan; which is regulated by the Public Employees Retirement Administration Commission (PERAC). The System is a defined benefit pension plan that covers substantially all employees of its member employers except for current and retired teachers. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System at 41 Elm Street, Southbridge, Massachusetts 01550.

The District is a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan, to which the District does not contribute. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for the contributions and future benefit requirements of the MTRS.

Special Funding Situation

The Commonwealth is a nonemployer contributor and is responsible by statute to make all actuarially determined contributions and future benefit requirements on behalf of the District to the MTRS. Therefore, the District is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in the MTRS. Since the District does not contribute directly to MTRS, there is no pension liability to

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

recognize. The total of the Commonwealth provided contributions have been allocated based upon each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2015. The District's portion of the collective pension expense contributed by the Commonwealth of \$2,474,077 on-behalf payments for the fiscal year ending June 30, 2016 is reported as intergovernmental revenue and fixed charges in the General Fund as of the measurement date.

Benefits Provided

Both the System and MTRS provide retirement, disability, and death benefits to plan members and beneficiaries. Members become vested after 10 years of creditable service and are eligible for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Retirement benefits are determined as a percentage of the member's final three-year (five-year for members hired on or after April 2, 2012) final average compensation times the member's years of creditable service prior to retirement. The percentage is based on the age of the member at retirement and his or her Group classification. The authority for amending these provisions rests with the Massachusetts Legislature.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost of living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's State law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

Contributions

MGL Chapter 32 governs the contributions of plan members and the District. Plan members are required to contribute to the System at rates ranging from 5% to 9% based upon their membership date of gross regular compensation with an additional 2% contribution after exceeding \$30,000 in 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. Administrative expenses are funded through investment earnings. The District's proportionate share of the required contribution to the System for the year ended December 31, 2015 was \$409,299, representing 22.3% of the covered payroll, an actuarially determined amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year and an additional amount to finance any unfunded accrued liability.

Pension Liability

As of June 30, 2016, the District reported a liability of \$4,037,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At December 31, 2015, the District's proportional percentage was 12.26%, which was a slight decrease from the last measurement.

Pension Expense

For the year ended June 30, 2016, the District recognized a pension expense of \$489,000 and reported deferred outflows of resources related to pensions of \$287,000, from the net difference between projected and actual investment earnings on pension plan investments and deferred inflows of resources related to

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

pensions of \$89,000 from changes in proportion and differences between employer contributions and proportionate share of contributions. Since the System performs an actuarial valuation bi-annually, there are no reported differences between the expected and actual experience or a change of assumptions as of December 31, 2015.

The District's net deferred outflows/(inflows) of resources related to pensions will be recognized in the pension expense as follows (dollar amounts expressed in thousands);

For years ended June 30,	
2017	\$ 50
2018	50
2019	50
2020	48
	<u>\$ 198</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2014, using the following actuarial assumptions, applied to all periods included in the measurement that was updated December 31, 2015;

Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Increasing 5.0% per year
Remaining amortization period	18 years from July 1, 2016
Asset valuation method	The actuarial value of assets is the market value. For funding purposes, gains and losses each year are recognized over 5 years.
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Projected salary increase	Select and ultimate by job group. Ultimate rates of 4.25% for Group 1 and 4.75% for Group 4.
Inflation	Not explicitly assumed
Cost of living adjustments	3.00% of the first \$12,000.
Mortality rates	Pre-retirement rates reflect the RP-2000 Employees table projected 22 years with Scale AA (gender distinct). Post retirement rates reflect the RP-2000 Healthy Annuitant table projected 17 years with Scale AA (gender distinct). For disabled retirees, this table is set forward 3 years for males.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

Best estimates of arithmetic real rates of return for each major class included in the pension plan's target asset allocation as of December 31, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic Equities	18%	7.75% to 8.0%
International Equities	22%	8.25% to 9.5%
Fixed Income	19%	3.0% to 7.25%
Private Equity	10%	9.75%
Real Estate (Core)	10%	6.50%
Hedge Funds	9%	7.00%
Other	12%	< or = to 8.25%
Total	<u>100.00%</u>	

Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2015, the annual money-weighted rate of return was approximately 7.5%.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that member employer contributions will be made in accordance with Section 22D and Section 22F of MGL Chapter 32. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments or current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75%. As well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate (dollar amounts expressed in thousands):

	1% Decrease 6.75%	Current Discount Rate 7.75%	1% Increase 8.75%
District's net pension liability	\$ 5,045	\$ 4,037	\$ 3,168

D. Other Post Employment Benefits Payable

GASB Statement No. 45

The cost of post employment benefits generally should be associated with the periods in which costs occur rather than in the future year when it will be paid. The District adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008, and thus recognizes the cost of post employment

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

benefits in the year when the employee services are received, reports the accumulated liability from prior years and provides information useful in assessing potential demands on the District's future cash flows.

Plan Description

In addition to providing pension benefits as described on the following footnote, the District provided post-employment health care and life insurance benefits for retired employees, their dependents and beneficiaries. The benefits, benefit levels, employee and employer contributions are governed by Massachusetts General Law chapter 32. As of the actuarial valuation date there are approximately 250 active and retired employees that meet the eligibility requirements. The plan does not issue a separate financial report.

Funding Policy

The contribution requirements of plan members and the District are established pursuant to applicable collective bargaining and employment contracts. The required contribution is based on the projected pay-as-you-go financing requirements. For the 2016 fiscal year, total School District premiums plus implicit costs for the retiree medical program are \$228,382.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post employment 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 No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years.

The following table shows the components of the District's annual OPEB costs for the fiscal year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan:

Normal Cost	\$	711,597
Amortization of unfunded actuarial accrued liability		569,238
Annual required contribution		1,280,835
Interest on net OPEB obligation		134,023
Adjustment to annual required contribution		(372,054)
Annual OPEB cost (expense)		1,042,804
Contributions made during the fiscal year		(228,382)
Increase in net OPEB obligation		814,422
Net OPEB Obligation - beginning of year		6,701,130
Net OPEB Obligation - end of year		<u><u>\$ 7,515,552</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2016 fiscal year and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/16	\$ 1,042,804	21.9%	\$ 7,515,552
06/30/15	\$ 936,171	26.4%	\$ 6,701,130
06/30/14	\$ 942,243	25.0%	\$ 6,012,282

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016**

Funded Status and Funding Process

As of June 30, 2016, the most recent valuation date, the plan was 1.0% funded. The actuarial liability for benefits was \$10,402,954, and the actuarial value of assets was \$150,282; resulting in an unfunded actuarial accrued liability (UAAL) of \$10,252,672. The covered payroll (annual payroll of active employees covered by the plan) and the ratio of the UAAL to the covered payroll were not provided.

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 contribution 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 multi-year 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 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 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 District OPEB actuarial valuation as of June 30, 2016, used the entry age normal actuarial cost method. The OPEB liability is currently unfunded and the actuarial assumptions include an interest discount rate of 2.0% per year, net of expenses, for an unfunded plan. The actuarial assumptions also include a rate of growth in real income, GDP per capita of 1.6% per annum and a general inflation of 2.3% per annum. In addition, the healthcare trend rate of 4.85% in 2016 increasing to 4.91% in 2050.

The unfunded actuarial accrued liability is being amortized over 30 years on a projected unit credit actuarial cost method. The remaining amortization period at June 30, 2016 is 22 years.

Trust Fund

The District did establish a trust fund in order to contribute funds to reduce the future OPEB liability. As of June 30, 2016 the trust balance is \$150,282.

E. Implementation Of New GASB Pronouncements

The GASB issued Statement No. 72, *Fair Value Measurement and Application*, for implementation in 2016.

The GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, for implementation in 2016.

F. Future GASB Pronouncements

Management is currently assessing the impact the implementation of the following pronouncements will have on the basic financial statements.

The GASB issued Statement No. 77, *Tax Abatement Disclosures*, for implementation in fiscal year 2017.

REQUIRED SUPPLEMENTARY INFORMATION

**SOUTHERN WORCESTER COUNTY REGIONAL VOCATIONAL SCHOOL DISTRICT
Required Supplementary Information
Pension Plan Schedules
Southbridge Contributory Retirement System
For the Year Ended June 30, 2016**

The Schedule of Proportionate Share of the Net Pension Liability represents multiyear trend information relating to the District's proportion of the net pension liability and related ratios.

Schedule of the District's Proportionate Share of the Net pension Liability (dollar amounts expressed in thousands):

	<u>12/31/15</u>	<u>12/31/14</u>
District's proportion of the net pension liability (asset)	12.26%	12.34%
District's proportionate share of the net pension liability (asset)	\$ 4,037	\$ 3,814
District's covered employee payroll	\$ 1,833	\$ 1,846
Net pension liability percentage of covered-employee payroll	220.2%	206.6%
Plan fiduciary net position as a percentage of the total pension liability	55.8%	56.4%

Note: these schedules are intended to present information for 10 years. Until a 10-year trend is compiled, the information is presented for those years the information is available.

SOUTHERN WORCESTER COUNTY REGIONAL VOCATIONAL SCHOOL DISTRICT
Required Supplementary Information
Pension Plan Schedules
Southbridge Contributory Retirement System
For the Year Ended June 30, 2016

The Schedule of the Employer Contributions presents multiyear trend information on the District's required and actual payments to the pension plan and related ratios.

Schedule of the District's Contributions (dollar amounts expressed in thousands):

	<u>12/31/15</u>	<u>12/31/14</u>
Actuarially determined contribution	\$ 409	\$ 392
Less: Contributions in relation to the actuarially determined contribution	<u>(409)</u>	<u>(392)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,833	\$ 1,846
Contributions percentage of covered-employee payroll	22.3%	21.2%

Note: these schedules are intended to present information for 10 years. Until a 10-year trend is compiled, the information is presented for those years the information is available.

SOUTHERN WORCESTER COUNTY REGIONAL VOCATIONAL SCHOOL DISTRICT
Required Supplementary Information
Schedule of Funding Progress and Employer Contributions
Other Post Employment Benefit Plan Schedule
Year Ended June 30, 2016

Schedule of Funding Progress

Other Post Employment Benefits						
Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Aid (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
06/30/16	\$ 150,282	\$ 10,402,954	\$ 10,252,672	1%	N/A	N/A
06/30/15	\$ 96,481	\$ 9,651,772	\$ 9,555,291	1%	N/A	N/A
06/30/14	\$ -	\$ 9,693,449	\$ 9,693,449	0%	N/A	N/A

Schedule of Contribution Funding

Other Post Employment Benefits			
Fiscal Year Ended June 30	Annual OPEB Cost	Actual Contributions Made	Percentage of Cost Contributed
2016	\$ 1,042,804	\$ 228,382	21.9%
2015	\$ 936,171	\$ 247,323	26.4%
2014	\$ 942,243	\$ 235,546	25.0%

The information presented in the above Required Supplementary Schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation can be found in the Notes to Basic Financial Statements.

Actuarial Methods:

Valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal Actuarial Cost Method
Amortization method	30-year amortization payments

Actuarial Assumptions:

Investment rate of return	2.00% per year
Rate of growth in real income, GDP per Capita	1.60%
General inflation rate	2.30%
Medical/drug cost trend rate	4.85% in 2016, with varying annual trend rates to 4.91% in 2050.

Plan Membership:

Current active members	150
Current retirees, beneficiaries and dependents	100
Total	<u>250</u>

SUPPLEMENTARY SCHEDULE

**SOUTHERN WORCESTER COUNTY REGIONAL VOCATIONAL SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Fund Balances July 1, 2015	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2016
Special Revenue Funds:					
Federal Grants:					
School Grants	\$ 50,892	\$ 733,769	\$ 716,295	\$ -	\$ 68,366
Department of Youth Services Grants	200	-	-	-	200
State Grants:					
School Grants	-	300,500	185,983	-	114,517
Cultural Council Grants	1,500	-	1,300	-	200
Transportation Routing Grant	1	-	-	-	1
Wind Feasibility Study Grant	3,900	-	-	-	3,900
Revolving Accounts:					
School Lunch Program	92,650	436,157	365,869	-	162,938
School Lunch Commodities	-	35,552	35,552	-	-
Athletic Revolving	38,485	9,422	3,245	-	44,662
Evening School Revolving	10,579	287,105	352,599	-	(54,915)
Facilities Rental Revolving	12,203	4,687	4,178	-	12,712
Out of District Tuition Revolving	53,767	4,274	767	-	57,274
Practical Nursing Revolving	147,447	487,883	389,744	-	245,586
Shop Revolving	194,854	352,465	332,924	-	214,395
Summer School Revolving	23,520	11,325	12,912	-	21,933
Tuition Revolving	281,552	44,103	-	-	325,655
Other:					
Premium on Bond	84,827	-	-	-	84,827
Gifts and Donations	135,721	77,459	33,200	57,779	237,759
DiGregorio Memorial Machining Center	58,154	-	-	(57,779)	375
Other Grants and Programs	1,830	13,697	6,756	-	8,771
Total Special Revenue Funds	\$ 1,192,082	\$ 2,798,398	\$ 2,441,324	\$ -	\$ 1,549,156

**SOUTHERN WORCESTER COUNTY REGIONAL VOCATIONAL SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Fund Balances July 1, 2015	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2016
Capital Projects Funds:					
Welding Booth	\$ 76,461	\$ -	\$ -	\$ -	\$ 76,461
Dust Collector Replacement	462	-	-	-	462
School Bus Purchase	98,436	-	-	63,910	162,346
Water System Upgrade	400,000	-	-	-	400,000
Sewer Project	8,177	-	8,177	-	-
Total Capital Projects Funds	583,536	-	8,177	63,910	639,269
Total Non-Major Governmental Funds	\$ 1,775,618	\$ 2,798,398	\$ 2,449,501	\$ 63,910	\$ 2,188,425