

WACHUSETT REGIONAL SCHOOL DISTRICT

Annual Financial Statements

For the Year Ended June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the School Committee
Wachusett Regional School District

Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Wachusett Regional School District (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Wachusett Regional School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and

fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Wachusett Regional School District, as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the pension and OPEB schedules appearing on pages 43 to 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Melanson Heath

March 13, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Wachusett Regional School District (the District), we offer readers this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves.

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

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

The Statement of Activities presents information showing how the District'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.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. The District's funds are categorized in two categories: governmental funds and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Reconciliations are provided to facilitate the comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of liabilities and deferred inflows exceeded assets and deferred outflows by \$(109,748,379) (i.e., net position), a change of \$(9,756,970) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$3,105,098, a change of \$1,076,997 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,416,615, a change of \$862,941 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

NET POSITION

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Current assets	\$ 8,756,259	\$ 8,219,117
Noncurrent assets	<u>68,569,925</u>	<u>70,838,818</u>
Total assets	77,326,184	79,057,935
Deferred outflows of resources	3,830,693	3,961,487
Current liabilities	7,709,156	8,210,469
Noncurrent liabilities	<u>176,088,333</u>	<u>122,092,045</u>
Total liabilities	183,797,489	130,302,514
Deferred inflows of resources	7,107,767	1,512,354
Net position:		
Net investment in capital assets	53,425,492	53,833,818
Restricted	1,643,997	1,101,455
Unrestricted	<u>(164,817,868)</u>	<u>(103,730,719)</u>
Total net position	<u>\$ (109,748,379)</u>	<u>\$ (48,795,446)</u>

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. At the close of the most recent fiscal year, total net position was \$(109,748,379), a change of \$(9,756,970) from the prior year.

The largest portion of net position, \$53,425,492, reflects our investment in capital assets (e.g., land and buildings), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$1,643,997, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is in a deficit of \$(164,817,868), primarily resulting from the unfunded net pension liability (see Note 10) and unfunded net OPEB liability (see Note 12).

CHANGE IN NET POSITION

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues:		
Charges for services	\$ 3,741,858	\$ 3,034,290
Operating grants and contributions	21,856,286	23,400,765
General revenues:		
Assessments to members	59,608,255	56,539,230
Grants and contributions not restricted to specific programs	30,556,292	27,278,446
Investment income	29,515	13,253
Miscellaneous	267,143	281,720
Total revenues	<u>116,059,349</u>	<u>110,547,704</u>
 Expenses:		
Administration	2,143,384	2,025,362
Instruction	55,735,048	55,170,131
Other school services	11,289,730	10,754,784
Operation and maintenance	6,382,641	6,264,185
Fixed charges	41,183,911	38,669,538
Programs with other districts	6,158,276	5,492,981
Interest	654,436	695,723
Depreciation	2,268,893	2,287,164
Total expenses	<u>125,816,319</u>	<u>121,359,868</u>
Change in net position	(9,756,970)	(10,812,164)
Net position - beginning of year, as restated	<u>(99,991,409) *</u>	<u>(37,983,282)</u>
Net position - end of year	<u>\$ (109,748,379)</u>	<u>\$ (48,795,446)</u>

*Fiscal year 2017 amounts above were not restated as the District applied GASB 75 prospectively. See Notes 12 and 14.

Governmental activities for the year resulted in a change in net position of \$(9,756,970). Key elements of this change are as follows:

Governmental funds operating results	\$ 1,076,997
Debt principal payments in excess of depreciation expense	(408,893)
Change in accrued interest liability	(3,542)
Change in compensated absence liability	(11,400)
Change in net pension liability and related deferrals	(1,925,419)
Change in net OPEB liability and related deferrals	<u>(8,484,713)</u>
Total	<u>\$ (9,756,970)</u>

D. FINANCIAL ANALYSIS OF FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District'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 \$3,105,098, a change of \$1,076,997 in comparison to the prior year. Key elements of this change are as follows:

General Fund operating results	\$ 823,891
Nonmajor Governmental Funds operating results	<u>253,106</u>
Total	<u>\$ 1,076,997</u>

The General Fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,416,615, while total fund balance was \$1,762,649. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total General Fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>06/30/18</u>	<u>06/30/17</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 1,416,615	\$ 553,674	\$ 862,941	1.4%
Total fund balance	\$ 1,762,649	\$ 938,758	\$ 823,891	1.8%

The total fund balance of the General Fund changed by \$823,891 during the current fiscal year. Key factors in this change are as follows:

Use of fund balance as a funding source	\$ (150,000)
Revenues in excess of budget	231,587
Expenditures less than budget	770,274
Current year encumbrances	196,034
Prior year encumbrances	<u>(224,004)</u>
Total	<u>\$ 823,891</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS

There was no overall change in the General Fund budget; however, there were line items transfers approved by the School Committee.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets at year-end amounted to \$68,569,925 (net of accumulated depreciation). This investment in capital assets includes land and buildings.

Additional information on capital assets can be found in the Notes to the Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$15,145,000, all of which was backed by the full faith and credit of the District.

Additional information on long-term debt can be found in the Notes to the Financial Statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Wachusett Regional School District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Wachusett Regional School District
1745 Main Street
Jefferson, Massachusetts 01522

WACHUSETT REGIONAL SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2018

	<u>Governmental Activities</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Current:	
Cash and short-term investments	\$ 7,304,398
Receivables	1,451,861
Total current assets	8,756,259
Noncurrent:	
Land	695,000
Capital assets, net of accumulated depreciation	67,874,925
Total noncurrent assets	68,569,925
Total assets	77,326,184
Deferred Outflows of Resources:	
Related to pensions	3,830,408
Related to OPEB	285
Total deferred outflows of resources	3,830,693
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	81,156,877
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
Current:	
Accounts payable	3,886
Accrued payroll and related liabilities	5,647,275
Accrued interest on bonds payable	162,995
Current portion of bonds payable	1,895,000
Total current liabilities	7,709,156
Noncurrent:	
Bonds payable	13,250,000
Compensated absences	294,400
Net pension liability	27,047,828
Net OPEB liability	135,496,105
Total noncurrent liabilities	176,088,333
Total liabilities	183,797,489
Deferred Inflows of Resources:	
Related to pensions	843,359
Related to OPEB	6,264,408
Total deferred inflows of resources	7,107,767
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	190,905,256
NET POSITION	
Net investment in capital assets	53,425,492
Restricted	1,643,997
Unrestricted	(164,817,868)
TOTAL NET POSITION	\$ (109,748,379)

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

WACHUSETT REGIONAL SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	
Governmental Activities:				
Administration	\$ 2,143,384	\$ -	\$ -	\$ (2,143,384)
Instruction	55,735,048	2,061,608	5,437,641	(48,235,799)
Other school services	11,289,730	1,680,250	557,841	(9,051,639)
Operation and maintenance	6,382,641	-	-	(6,382,641)
Fixed charges	41,183,911	-	15,860,804	(25,323,107)
Programs with other districts	6,158,276	-	-	(6,158,276)
Interest	654,436	-	-	(654,436)
Depreciation	2,268,893	-	-	(2,268,893)
Total Governmental Activities	\$ 125,816,319	\$ 3,741,858	\$ 21,856,286	(100,218,175)
General Revenues:				
				59,608,255
				30,556,292
				29,515
				267,143
				90,461,205
				(9,756,970)
Net Position:				
				(99,991,409)
				\$ (109,748,379)

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

WACHUSETT REGIONAL SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and short-term investments	\$ 7,304,398	\$ -	\$ 7,304,398
Receivables	-	1,451,861	1,451,861
Due from other funds	<u>109,412</u>	<u>-</u>	<u>109,412</u>
TOTAL ASSETS	<u>\$ 7,413,810</u>	<u>\$ 1,451,861</u>	<u>\$ 8,865,671</u>
LIABILITIES			
Accounts payable	\$ 3,886	\$ -	\$ 3,886
Accrued payroll and related liabilities	5,647,275	-	5,647,275
Due to other funds	<u>-</u>	<u>109,412</u>	<u>109,412</u>
TOTAL LIABILITIES	5,651,161	109,412	5,760,573
FUND BALANCES			
Restricted	-	1,643,997	1,643,997
Assigned	346,034	-	346,034
Unassigned	<u>1,416,615</u>	<u>(301,548)</u>	<u>1,115,067</u>
TOTAL FUND BALANCES	<u>1,762,649</u>	<u>1,342,449</u>	<u>3,105,098</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 7,413,810</u>	<u>\$ 1,451,861</u>	<u>\$ 8,865,671</u>

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

WACHUSETT REGIONAL SCHOOL DISTRICT

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION**

JUNE 30, 2018

Governmental fund balances	\$ 3,105,098
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	68,569,925
<ul style="list-style-type: none">• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(162,995)
<ul style="list-style-type: none">• Long-term liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds.	
Bonds payable	(15,145,000)
Compensated absences	(294,400)
<ul style="list-style-type: none">• Net pension liability and related deferred outflows/inflows of resources are not due and payable in the current period nor require the use of current financial resources and, therefore, are not reported in governmental funds.	(24,060,779)
<ul style="list-style-type: none">• Net OPEB liability and related deferred outflows/inflows of resources are not due and payable in the current period nor require the use of current financial resources and, therefore, are not reported in governmental funds.	<u>(141,760,228)</u>
Net position of governmental activities	<u>\$ (109,748,379)</u>

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

WACHUSETT REGIONAL SCHOOL DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2018

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Assessments to members	\$ 59,608,255	\$ -	\$ 59,608,255
Intergovernmental	38,760,319	5,995,482	44,755,801
Charges for services	-	3,741,858	3,741,858
Investment income	28,276	1,239	29,515
Miscellaneous	267,143	-	267,143
Total Revenues	<u>98,663,993</u>	<u>9,738,579</u>	<u>108,402,572</u>
Expenditures:			
Current:			
Administration	2,097,147	46,237	2,143,384
Instruction	52,335,581	3,388,067	55,723,648
Other school services	8,126,631	3,163,099	11,289,730
Operation and maintenance	6,269,268	113,373	6,382,641
Fixed charges	22,842,924	274,078	23,117,002
Programs with other districts	3,657,657	2,500,619	6,158,276
Debt service:			
Principal	1,860,000	-	1,860,000
Interest	650,894	-	650,894
Total Expenditures	<u>97,840,102</u>	<u>9,485,473</u>	<u>107,325,575</u>
Change in fund balance	823,891	253,106	1,076,997
Fund Equity, at Beginning of Year	<u>938,758</u>	<u>1,089,343</u>	<u>2,028,101</u>
Fund Equity, at End of Year	<u>\$ 1,762,649</u>	<u>\$ 1,342,449</u>	<u>\$ 3,105,098</u>

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

WACHUSETT REGIONAL SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2018

Changes in fund balances - governmental funds	\$ 1,076,997
<ul style="list-style-type: none">• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Depreciation	(2,268,893)
<ul style="list-style-type: none">• The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position:	
Repayments of bonds	1,860,000
<ul style="list-style-type: none">• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	
	(3,542)
<ul style="list-style-type: none">• 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:	
Change in compensated absence liability	(11,400)
Change in net pension liability and related deferred outflows/inflows of resources	(1,925,419)
Change in net OPEB obligation and related deferred outflows/inflows of resources	<u>(8,484,713)</u>
Change in net position - governmental activities	<u>\$ (9,756,970)</u>

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

WACHUSETT REGIONAL SCHOOL DISTRICT

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES -

FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Assessments to members	\$ 59,608,255	\$ 59,608,255	\$ 59,608,255	\$ -
Intergovernmental	30,155,374	30,155,374	30,556,292	400,918
Investment income	25,500	25,500	28,276	2,776
Miscellaneous	439,250	439,250	267,143	(172,107)
Use of fund balance	150,000	150,000	150,000	-
Total Revenues and Other Sources	90,378,379	90,378,379	90,609,966	231,587
Expenditures and Other Uses:				
Administration	2,015,173	2,034,019	2,099,927	(65,908)
Instruction	52,956,551	52,675,054	52,262,049	413,005
Other school services	8,089,384	8,176,264	8,125,306	50,958
Operation and maintenance	6,455,909	6,440,528	6,330,727	109,801
Fixed charges	15,044,172	14,851,622	14,621,375	230,247
Programs with other districts	3,306,296	3,689,998	3,657,827	32,171
Principal	1,860,000	1,860,000	1,860,000	-
Interest	650,894	650,894	650,894	-
Total Expenditures and Other Uses	90,378,379	90,378,379	89,608,105	770,274
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,001,861	\$ 1,001,861

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

WACHUSETT REGIONAL SCHOOL DISTRICT

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

	<u>OPEB Trust Fund</u>	<u>Private Purpose Trust Funds - Scholarships</u>	<u>Agency Funds</u>
ASSETS			
Cash and short term investments	\$ <u>10,019</u>	\$ <u>195,202</u>	\$ <u>435,622</u>
TOTAL ASSETS	10,019	195,202	435,622
LIABILITIES			
Due to student organizations	<u>-</u>	<u>-</u>	<u>435,622</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>435,622</u>
NET POSITION			
Restricted for OPEB purposes	10,019	-	-
Restricted for other purposes	<u>-</u>	<u>195,202</u>	<u>-</u>
TOTAL NET POSITION	\$ <u><u>10,019</u></u>	\$ <u><u>195,202</u></u>	\$ <u><u>-</u></u>

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

WACHUSETT REGIONAL SCHOOL DISTRICT

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2018

	<u>OPEB Trust Fund</u>	<u>Private Purpose Trust Funds - Scholarships</u>
Additions:		
Contributions	\$ 10,000	\$ 7,000
Investment income	<u>19</u>	<u>1,149</u>
Total additions	10,019	8,149
Deductions:		
Awards and scholarships	<u>-</u>	<u>4,042</u>
Total deductions	<u>-</u>	<u>4,042</u>
Net increase	10,019	4,107
Net position:		
Beginning of year	<u>-</u>	<u>191,095</u>
End of year	<u>\$ 10,019</u>	<u>\$ 195,202</u>

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

WACHUSETT REGIONAL SCHOOL DISTRICT

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Wachusett Regional School District (the District) conform to Generally Accepted Accounting Principles (GAAP) as applicable to governmental units. The following is a summary of significant policies:

Reporting Entity

The Wachusett Regional School District is a municipal corporation governed by an elected Regional School Committee. As required by Generally Accepted Accounting Principles, these financial statements present the District and applicable component units for which the District is considered to be financially accountable. In fiscal year 2018, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

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

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Typically, revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, certain expenditures such as debt service, claims and judgments, compensated absences, and pension and OPEB are recorded as expenditures only when they are due.

The District reports the following major governmental fund:

- The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The District reports the following fiduciary funds:

- *Other Post-Employment Benefits Trust Fund* is used to accumulate resources for health and life insurance benefits for retired employees.
- *Private-Purpose Trust Funds* are used to account for trust arrangements, under which principal and investment income exclusively benefits individuals, private organizations, or other governments.

- *Agency Funds* are used to account for fiduciary assets held by the District in a custodial capacity as an agent on behalf of others (e.g., student activity funds). Agency funds report only assets and liabilities and, therefore, have no measurement focus.

Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain governmental and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments".

Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from/to other funds" (i.e., the current portion of interfund loans).

Capital Assets

Capital assets, which include land and buildings are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$25,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40

Compensated Absences

It is the District's policy to permit certain employees to accumulate earned but unused vacation benefits. All vested vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net position".

Fund Balance - Generally, fund balance represents the difference between current assets/deferred outflows and current liabilities/deferred inflows. The District reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and, therefore, are not available for appropriation or expenditure.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the District uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on use, either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws, or regulations of other governments. The remaining net position is reported as unrestricted.

Use of Estimates

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

2. Stewardship, Compliance and Accountability

Budgetary Information

The School Committee annually determines the amount to be raised (after deducting the amount of anticipated revenue the District expects to receive) to maintain and operate the District during the next fiscal year. The District then calculates the assessments to each member community based on its approved budget and seeks an appropriation in the amount of that assessment from each community. After assessments are appropriated by each member community that are consistent with the School Committee's budget (either its initial budget or a budget revised to be consistent with the member's appropriations), the District Treasurer certifies the assessments to the treasurers of the member communities.

Formal budgetary integration is employed as a management control device during the year for the General Fund. Effective budgetary control is achieved for all other funds through provisions of Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items which will be honored during the subsequent year.

Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all transfers and supplemental appropriations.

Budget/GAAP Reconciliation

The budgetary data for the General Fund is based upon accounting principles that differ from Generally Accepted Accounting Principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the General Fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
GAAP basis	\$ 98,663,993	\$ 97,840,102
Record use of fund balance as a funding source	150,000	-
Add end-of-year appropriation carryforwards	-	196,034
Reverse prior year appropriation carryforwards	-	(224,004)
Reverse State contributions to MTRS	<u>(8,204,027)</u>	<u>(8,204,027)</u>
Budgetary basis	<u>\$ 90,609,966</u>	<u>\$ 89,608,105</u>

Assessments to Members

Most capital and operating costs of the District in excess of each member's net minimum contribution are apportioned to the members on the basis of their respective pupil enrollments in the District on October 1 of the preceding year. Certain costs, such as transportation and debt service, are outside of the net school spending requirements established by the Commonwealth of Massachusetts. These costs are apportioned to the members based on either a percentage or on a member-specific basis. For the year ended June 30, 2018, the assessments were as follows:

Holden	\$ 26,188,811
Rutland	11,507,875
Sterling	11,242,419
Paxton	5,998,794
Princeton	<u>4,670,356</u>
Total	<u>\$ 59,608,255</u>

Deficit Fund Balances

Certain individual funds reflected deficit balances as of June 30, 2018. The deficits in these funds will be eliminated through future departmental and intergovernmental revenues, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. Massachusetts General Law Chapter 44, section 55, limits the District's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the

capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess.” The District does not have a deposit policy for custodial credit risk.

At June 30, 2018, the District’s bank balance was categorized as follows:

FDIC/DIF/NCUA	\$ 981,321
Uninsured or uncollateralized	<u>9,824,512</u>
Total	<u>\$ 10,805,833</u>

4. Receivables

Receivables are comprised primarily of reimbursements requested from Federal and State agencies for expenditures incurred in fiscal year 2018.

5. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings	\$ 90,755,709	\$ -	\$ -	\$ 90,755,709
Total capital assets, being depreciated	90,755,709	-	-	90,755,709
Less accumulated depreciation for:				
Buildings	<u>(20,611,891)</u>	<u>(2,268,893)</u>	<u>-</u>	<u>(22,880,784)</u>
Total accumulated depreciation	<u>(20,611,891)</u>	<u>(2,268,893)</u>	<u>-</u>	<u>(22,880,784)</u>
Total capital assets, being depreciated, net	70,143,818	(2,268,893)	-	67,874,925
Capital assets, not being depreciated:				
Land	<u>695,000</u>	<u>-</u>	<u>-</u>	<u>695,000</u>
Total capital assets, not being depreciated	<u>695,000</u>	<u>-</u>	<u>-</u>	<u>695,000</u>
Governmental activities capital assets, net	<u>\$ 70,838,818</u>	<u>\$ (2,268,893)</u>	<u>\$ -</u>	<u>\$ 68,569,925</u>

6. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the District that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions and OPEB, in accordance with GASB Statements No. 68 and 75, are more fully discussed in the corresponding pension and OPEB notes.

7. Long-Term Liabilities

General Obligation Bonds

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 06/30/18</u>
2009 Multipurpose bonds	08/15/28	3.12 - 4.50%	\$ 3,355,000
2010 Multipurpose bonds	10/15/26	2.50 - 4.25%	1,070,000
2011 Multipurpose bonds	01/15/30	3.00 - 5.25%	1,935,000
2014 State qualified refunding bonds	12/01/23	1.50 - 4.00%	7,220,000
2015 State qualified refunding bonds	07/15/24	2.00 - 4.00%	<u>1,565,000</u>
Total			<u>\$ 15,145,000</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,895,000	\$ 606,681	\$ 2,501,681
2020	1,940,000	416,681	2,356,681
2021	2,000,000	445,681	2,445,681
2022	2,055,000	362,181	2,417,181
2023	2,110,000	276,931	2,386,931
2024-2028	4,520,000	525,616	5,045,616
Thereafter	<u>625,000</u>	<u>32,062</u>	<u>657,062</u>
Total	<u>\$ 15,145,000</u>	<u>\$ 2,665,833</u>	<u>\$ 17,810,833</u>

The General Fund has been designated as the source to repay the bonds payable.

Changes in General Long-Term Liabilities

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

	Total Balance 07/01/17	Additions	Reductions	Total Balance 06/30/18	Less Current Portion	Equals Long-Term Portion 06/30/18
<u>Governmental Activities</u>						
Bonds payable	\$ 17,005	\$ -	\$ (1,860)	\$ 15,145	\$ (1,895)	\$ 13,250
Compensated absences	283	11	-	294	-	294
Net pension liability	24,585	2,463	-	27,048	-	27,048
Net OPEB liability	<u>133,276</u> *	<u>15,596</u>	<u>(13,376)</u>	<u>135,496</u>	<u>-</u>	<u>135,496</u>
Subtotal	<u>158,144</u>	<u>18,070</u>	<u>(13,376)</u>	<u>162,838</u>	<u>-</u>	<u>162,838</u>
Total	<u>\$ 175,149</u>	<u>\$ 18,070</u>	<u>\$ (15,236)</u>	<u>\$ 177,983</u>	<u>\$ (1,895)</u>	<u>\$ 176,088</u>

*as restated

8. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the District that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and are more fully described in the corresponding pension and OPEB notes.

9. Fund Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2018:

Nonspendable – Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes prepaid expenditures.

Restricted – Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority.

Assigned - Represent amounts that are constrained by the District's intent to use these resources for a specific purpose. This fund balance classification includes General Fund encumbrances for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period, and surplus set aside to be used in the subsequent year's budget.

Unassigned – Represent amounts that are available to be spent in future periods and deficit funds.

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

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted:			
Capital projects	\$ -	\$ 567	\$ 567
Grants and revolving funds	-	<u>1,643,430</u>	<u>1,643,430</u>
Total Restricted	-	1,643,997	1,643,997
Assigned			
Encumbrances	196,034	-	196,034
Subsequent year budget	<u>150,000</u>	<u>-</u>	<u>150,000</u>
Total Assigned	346,034	-	346,034
Unassigned:			
Funds in deficit	-	(301,548)	(301,548)
Remaining fund balance	<u>1,416,615</u>	<u>-</u>	<u>1,416,615</u>
Total Unassigned	<u>1,416,615</u>	<u>(301,548)</u>	<u>1,115,067</u>
Total Fund Balances	<u>\$ 1,762,649</u>	<u>\$ 1,342,449</u>	<u>\$ 3,105,098</u>

10. Worcester Contributory Retirement System

The District follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

Plan Description

All eligible employees of the District (except teachers) are members of the Worcester Contributory Retirement System (the System), a cost-sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System's Retirement Board does not have the authority to

amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at Worcester Regional Retirement System at 23 Midstate Drive, Suite 106, Midstate Office Park, Auburn, Massachusetts 01501 or from the System's website at www.worcesterregionalretirement.org.

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-year average annual rate of regular compensation for those first becoming members of the System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 10 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

If a participant was a member prior to February 2012, a retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left District employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4 have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts; an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

Participant Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the System. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

For those members entering the System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The District's contribution to the System for the year ended June 30, 2018 was \$1,678,385, which was equal to its annual required contribution.

Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported a liability of \$27,047,828 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016, rolled forward to the measurement date of December 31, 2017. The District'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 employers, actuarially determined. At December 31, 2017, the District's proportion was 3.317011 percent.

At June 30, 2018, the District's proportion was 3.317011 percent, which was an increase of 0.381878 percent from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$3,603,805. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual	\$ 179,933	\$ -
Changes in assumptions	2,577,578	-
Net difference between pension projected and actual pension investment earnings	-	843,359
Changes in proportion and differences between pension contributions and proportionate share of contributions	<u>1,072,897</u>	<u>-</u>
Total	<u>\$ 3,830,408</u>	<u>\$ 843,359</u>

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

Year ended June 30:	
2019	\$ 794,625
2020	791,657
2021	506,742
2022	500,251
2023	393,774
Thereafter	<u>-</u>
Total	<u>\$ 2,987,049</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

COLA	3% of the first \$14,000
Salary increases	4.25% per year, including longevity
Investment rate of return	7.75%

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

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding an expected inflation rate. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	40.00%	4.91%
Fixed income	22.00%	2.04%
Private equity	11.00%	6.50%
Real estate	10.00%	3.70%
Timber/natural resources	4.00%	3.25%
Hedge funds	13.00%	3.40%
Total	<u>100.00%</u>	

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 rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position

was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share 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 percent, 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:

1% Decrease 6.75%	Current Discount Rate 7.75%	1% Increase 8.75%
\$ \$ 32,965,489	\$ \$ 27,047,828	\$ \$ 22,050,332

Pension Plan Fiduciary Net Position

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

11. Massachusetts Teachers’ Retirement System (MTRS)

Plan Description

The Massachusetts Teachers’ Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. MTRS is managed by the Commonwealth of Massachusetts on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth of Massachusetts reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers’ Retirement Board (MTRB), which consists of seven members - two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

MTRS funding policies have been established by Chapter 32 of Massachusetts General Laws. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Membership Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

Actuarial Assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. This valuation used the following assumptions:

- (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period from January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2014 White Collar Employees table projected generationally with Scale MP 2016 (gender distinct).
 - Post-retirement - reflects RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP 2016 (gender distinct).
 - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and base year of 2014 set forward four years.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	5.0%
Portfolio completion strategies	13.0%	3.6%
Core fixed income	12.0%	1.1%
Private equity	11.0%	6.6%
Real estate	10.0%	3.8%
Value added fixed income	10.0%	3.6%
Timber/natural resources	4.0%	3.2%
Hedge funds	0.0%	3.6%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the

Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
\$ 28,424,000	\$ 22,885,391	\$ 18,193,400

Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for* (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employees do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

District Proportions

In fiscal year 2017 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense associated with the District was \$151,962,838 and \$15,860,804, respectively, based on a proportionate share of 0.664017%. As required by GASB 68, the District has recognized its portion of the Commonwealth's contribution as both a revenue and expenditure in the General Fund, and its portion of the collective pension expense as both a revenue and expense in the governmental activities.

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs.

In fiscal year 2017, the District established an OPEB Trust Fund to provide funding for future employee health care costs.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Statement No. 75 identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

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

General Information

Plan Description

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

Benefits Provided

The District provides medical and life insurance to retirees and their covered dependents. All active employees who retire from the District and meet the eligibility criteria will receive these benefits.

Plan Membership

As of July 1, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	483
Active employees	<u>1,014</u>
Total	<u>\$ 1,497</u>

Investments

The OPEB trust fund assets consist of domestic equities and bonds, international equities and alternatives.

Rate of Return. For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was not available. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Actuarial Assumptions and Other Inputs

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

Inflation	3.0%	
Salary increases	4.0%	
Investment rate of return	7.5%	compounded annually, net of fees
Discount rate	3.87%	compounded annually
Healthcare cost trend rates	8.0%	for 2018 to an ultimate rate of 5.0% as of 2022
Retiree's share of benefit-related costs	40%	medical
	50%	life

Post-retirement mortality rates for general employees were based on the RP-2000 Healthy Annuitant Mortality Table, base year 2009, projected with generational mortality improvement using scale BB.

Pre-retirement mortality rates for general employees are based on the RP-2000 Employees Mortality Table, base year 2009, projected generational mortality improvement using scale BB.

Post-retirement mortality rates for teachers are based on the RP-2014 Healthy Annuitant Mortality Table, base year 2014, projected with generational mortality improvement using scale BB.

Pre-retirement mortality rates for teachers are based on the RP-2014 Employees Mortality Table, base year 2014, projected with generational mortality improvement using scale BB.

The discount rate used to measure the net OPEB liability was 3.87%, based on the Bond Buyer 20-Bond GO Index published on June 28, 2018. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members.

Net OPEB Liability

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

Total OPEB liability	\$ 135,506,124
Plan fiduciary net position	<u>10,019</u>
Net OPEB liability	<u>\$ 135,496,105</u>

Plan fiduciary net position as a percentage of the total OPEB liability 0.01%

Changes in the Net OPEB Liability

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a) - (b)</u>
Balances at June 30, 2017	\$ 133,275,515	\$ -	\$ 133,275,515
Changes for the year:			
Service cost	7,593,739	-	7,593,739
Interest	4,989,178	-	4,989,178
Contributions - employer	-	3,023,387	(3,023,387)
Net investment income	-	19	(19)
Changes in assumptions or other inputs	(7,338,921)	-	(7,338,921)
Benefit payments	<u>(3,013,387)</u>	<u>(3,013,387)</u>	<u>-</u>
Net Changes	<u>2,230,609</u>	<u>10,019</u>	<u>2,220,590</u>
Balances at June 30, 2018	\$ <u>135,506,124</u>	\$ <u>10,019</u>	\$ <u>135,496,105</u>

There were no changes in benefit terms.

Changes of assumptions and other inputs reflect a change in the discount rate from 3.58% in fiscal year 2017 to 3.87% in fiscal year 2018.

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

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

<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
\$163,336,412	\$135,496,105	\$113,949,939

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

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

<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
\$108,772,323	\$135,496,105	\$174,463,024

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$8,484,713. At June 30, 2018, the District reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in assumptions	\$ -	\$ 6,264,408
Net difference between projected and actual OPEB investment earnings	<u>285</u>	<u>-</u>
Total	<u>\$ 285</u>	<u>\$ 6,264,408</u>

Year ended June 30:

2019	\$ 1,074,442
2020	1,074,442
2021	1,074,442
2022	1,074,442
2023	1,074,442
Thereafter	<u>891,913</u>
Total	<u>\$ 6,264,123</u>

13. Commitments and Contingencies

Outstanding Legal Issues - On an ongoing basis, there are typically pending legal issues in which the District is involved. The District's management is of the opinion that the potential future settlement of these issues would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

14. Beginning Balance Restatement

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

<u>Government-Wide Financial Statements:</u>	<u>Governmental Activities</u>
As previously reported	(48,795,446)
Implementation of GASB 75 OPEB	<u>(51,195,963)</u>
As restated	<u>(99,991,409)</u>

WACHUSETT REGIONAL SCHOOL DISTRICT

SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (GASB 68)

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

(Unaudited)

Worcester Regional Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2018	December 31, 2017	3.32%	\$ 27,047,828	\$ 11,159,876	242.4%	46.4%
June 30, 2017	December 31, 2016	2.94%	\$ 24,584,493	\$ 12,325,281	199.5%	42.0%
June 30, 2016	December 31, 2015	3.02%	\$ 21,453,126	\$ 10,975,602	195.5%	44.5%
June 30, 2015	December 31, 2014	3.29%	\$ 19,556,058	\$ 10,553,463	185.3%	47.9%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the District</u>	<u>Total Net Pension Liability Associated with the District</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2018	June 30, 2017	0.664017%	\$ -	\$ 151,962,838	\$ 151,962,838	\$ 44,800,000	0%	54.25%
June 30, 2017	June 30, 2016	0.645695%	\$ -	\$ 144,361,094	\$ 144,361,094	\$ 44,800,000	0%	52.73%
June 30, 2016	June 30, 2015	0.643135%	\$ -	\$ 131,776,121	\$ 131,776,121	\$ 41,000,000	0%	55.38%
June 30, 2015	June 30, 2014	0.652099%	\$ -	\$ 103,660,015	\$ 103,660,015	\$ 40,000,000	0%	61.64%

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

See Independent Auditors' Report.

WACHUSETT REGIONAL SCHOOL DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

(Unaudited)

Worcester Regional Retirement System

<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the Contractually Required Contribution	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	Contributions as a Percentage of Covered Payroll
June 30, 2018	\$ 1,678,385	\$ 1,678,385	\$ -	\$ 11,159,876	15%
June 30, 2017	\$ 1,425,736	\$ 1,425,736	\$ -	\$ 12,325,281	12%
June 30, 2016	\$ 1,359,653	\$ 1,359,653	\$ -	\$ 10,975,602	12%
June 30, 2015	\$ 1,298,737	\$ 1,298,737	\$ -	\$ 10,553,463	12%

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

See Independent Auditors' Report.

WACHUSETT REGIONAL SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY (GASB 74 and GASB 75)

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

(Unaudited)

	<u>2018</u>	<u>2017</u>
Total OPEB liability		
Service cost	\$ 7,593,739	\$ 9,091,033
Interest on unfunded liability - time value of money	4,989,178	4,278,911
Change in assumptions and other inputs	(7,338,921)	(19,679,264)
Benefit payments, including refunds of member contributions	<u>(3,013,387)</u>	<u>(2,922,743)</u>
Net change in total OPEB liability	2,230,609	(9,232,063)
Total OPEB liability - beginning	<u>133,275,515</u>	<u>142,507,578</u>
Total OPEB liability - ending (a)	<u>\$ 135,506,124</u>	<u>\$ 133,275,515</u>
Plan fiduciary net position		
Contributions - employer	3,023,387	2,922,743
Net investment income	19	-
Benefit payments, including refunds of member contributions	<u>(3,013,387)</u>	<u>(2,922,743)</u>
Net change in plan fiduciary net position	10,019	-
Plan fiduciary net position - beginning	<u>-</u>	<u>-</u>
Plan fiduciary net position - ending (b)	<u>\$ 10,019</u>	<u>\$ -</u>
Net OPEB liability (asset) - ending (a - b)	<u>\$ 135,496,105</u>	<u>\$ 133,275,515</u>

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

See Independent Auditors' Report.

WACHUSETT REGIONAL SCHOOL DISTRICT

SCHEDULES OF NET OPEB LIABILITY, CONTRIBUTIONS
AND INVESTMENT RETURNS (GASB 74 AND GASB 75)

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

(Unaudited)

Schedule of Net OPEB Liability

	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 135,506,124	\$ 133,275,515
Plan fiduciary net position	<u>10,019</u>	<u>-</u>
Net OPEB liability (asset)	<u>\$ 135,496,105</u>	<u>\$ 133,275,515</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%	0.00%

Schedule of Contributions

	<u>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 3,023,387	\$ 2,922,743
Net investment income	19	-
Contributions in relation to the actuarially determined contribution	<u>(3,013,387)</u>	<u>(2,922,743)</u>
Contribution deficiency (excess)	<u>10,019</u>	<u>-</u>

Schedule of Investment Returns

	<u>2018</u>	<u>2017</u>
Annual money weighted rate of return, net of investment expense	Unavailable	Unavailable

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

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

See Independent Auditors' Report.