

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT**

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

For the Year Ended June 30, 2017

**SOUTHERN WORCESTER COUNTY REGIONAL VOCATIONAL
SCHOOL DISTRICT, MASSACHUSETTS
Report on the Examination of Basic Financial Statements
For the Year Ended June 30, 2017**

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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, 2017, 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, 2017, 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 December 15, 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

December 15, 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, 2017. 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 \$36,132,332 (net position) for the fiscal year reported. This compares to the previous year when assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$38,218,301 or a decrease of \$2,085,969 (5%).
- The District's governmental funds reported total ending fund balance of \$3,153,168 this year showing a decrease of \$150,737 (5%).
- The General Fund's total fund balance decreased \$39,804 (2%) to \$1,946,201. The ending General fund balance is 8% of revenues and 8% of expenditures and transfers out.
- The District's long term liabilities increased by \$338,141 (1%) to \$44,011,251 during the fiscal year ending. This change was primarily due to an increase of \$814,668 in the other post employment benefit (OPEB) liability and of \$492,000 in the net pension liability and the decreases of \$251,369 in warrants and accounts payable and of \$640,000 in net bonds payable.
- The District's had excess and deficiency certified by the Department of Revenue in the amount of \$1,081,833.

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 2017 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		
	2017	2016	Change
Assets:			
Current assets	\$ 7,471,051	\$ 7,862,076	\$ (391,025)
Capital assets	72,139,532	73,831,335	(1,691,803)
Total assets	79,610,583	81,693,411	(2,082,828)
Deferred Outflows of Resources:			
Deferred outflows related to pensions	648,000	287,000	361,000
Liabilities:			
Current liabilities (excluding debt)	1,549,643	1,796,308	(246,665)
Current debt	3,665,000	3,640,000	25,000
Noncurrent liabilities (excluding debt)	13,446,608	12,221,802	1,224,806
Noncurrent debt	25,350,000	26,015,000	(665,000)
Total liabilities	44,011,251	43,673,110	338,141
Deferred Inflows of Resources:			
Deferred inflows related to pensions	115,000	89,000	26,000
Net Position:			
Net investment in capital assets	42,940,032	43,961,085	(1,021,053)
Restricted	2,681,217	2,811,329	(130,112)
Unrestricted	(9,488,917)	(8,554,113)	(934,804)
Total net position	\$ 36,132,332	\$ 38,218,301	\$ (2,085,969)

Financial Highlights
Statement of Activities Highlights

	Governmental Activities		
	2017	2016	Change
Program Revenues:			
Charges for services	\$ 1,179,635	\$ 1,131,999	\$ 47,636
Operating grants and contributions	5,998,402	4,818,447	1,179,955
Capital grants and contributions	42,988	8,353,566	(8,310,578)
General Revenues:			
Assessments to member communities	9,813,815	9,833,958	(20,143)
State Aid not restricted to specific programs	10,214,569	10,084,561	130,008
Unrestricted investment income	16,211	13,803	2,408
Miscellaneous	37,722	24,199	13,523
Total revenues	27,303,342	34,260,533	(6,957,191)
Expenses:			
Administration and benefits	760,676	793,074	(32,398)
Instruction	10,630,066	10,574,108	55,958
Other school services	4,509,092	4,366,984	142,108
Operation and maintenance	1,443,568	1,680,896	(237,328)
Fixed charges	7,651,031	6,116,095	1,534,936
Special education	1,169,092	1,207,952	(38,860)
Interest	955,139	972,101	(16,962)
Depreciation (unallocated)	2,270,647	558,473	1,712,174
Total expenses	29,389,311	26,269,683	3,119,628
Change in net position	(2,085,969)	7,990,850	(10,076,819)
Net position - beginning of year	38,218,301	30,227,451	7,990,850
Net position - end of year	\$ 36,132,332	\$ 38,218,301	\$ (2,085,969)

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 and deferred inflows of resources by \$36,132,332 at the close of fiscal year 2017.

Net position of \$42,940,032 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 \$2,681,217, represents resources that are subject to external restrictions on how they may be used. The remaining balance consists of *unrestricted net position* (\$9,488,917).

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 decreased by \$2,085,969 (5%). The key elements of the decrease in net position for fiscal year 2017 was mainly attributed to an increase of \$640,000 due to the repayment of debt and from the change in deferred outflow/(inflow) of resources related to pensions of \$335,000 and decreases as a result of the depreciation expense (normally spread out over the useful life of the asset) for the year of \$2,270,647 exceeding the acquisition of \$578,844 in new capital assets and due to the changes in recognizing this year's OPEB obligation of \$814,668 and net pension liability of \$492,000.

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 \$3,153,168, a decrease of \$150,737 (5%) 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 – \$1,520,876 (48%).
- Committed fund balance – \$549,971 (17%).
- Assigned fund balance – \$464,939 (15%).
- Unassigned fund balance – \$617,382 (20%).

At the end of the fiscal year, the General Fund reported a fund balance of \$1,946,201 decreasing \$39,804 (2%) from the prior year. Of the \$1,946,201, the unassigned amount is \$1,481,262 (76%) and the assigned amount is \$464,939 (24%). General fund revenues, received primarily from two sources, were \$1,336,171 (6%) more than the prior fiscal year and expenditures also increased by \$1,280,358 (5%). Other activities in the General fund were net transfers out of \$63,910.

Of the total General fund revenues, member Town assessments were \$9,813,815 or 40% and intergovernmental receipts were \$11,259,528 or 45%. Increases in General fund revenues as compared to the prior year occurred mainly with intergovernmental receipts of \$151,496 (1%) and in the Massachusetts Teachers Retirement Benefits (MTRB) on behalf payments of \$1,121,674 (45%).

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

- Decrease in instruction expenditures of \$92,211 (1%).
- Increase in fixed charges expenditures of \$1,418,690 (27%).

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 \$863,880 at the end of the fiscal year, increasing by \$6,645 (1%). This amount was attributed to revenues of \$42,988 exceeding expenditures of \$36,343.

General Fund Budgetary Highlights

The final general fund budget for fiscal year 2017 was \$21,456,133. This was an increase of \$47,428 (.2%) 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 \$285,750. Of the \$285,750 in under budget expenditures \$114,081 has been carried over to fiscal year 2018.

The variance with the final budget was a positive \$498,356 consisting of a revenue surplus of \$326,687 and an appropriation surplus of \$171,669.

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 \$72,139,532 (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 decrease of \$1,691,803 from the prior year representing additions of \$578,844 and depreciation of \$2,270,647.

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

- Various machinery and equipment purchases for \$378,943.
- Bus purchases for \$156,458.
- School gymnasium bleachers for \$27,775.
- Athletic field fencing for \$15,668.

Debt Administration: The District's outstanding governmental debt, as of June 30, 2017, totaled \$26,015,000 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, 2017 is \$184,500.

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, 2017 do not reflect the fiscal year 2018 School Committee actions except for the amount of \$350,858 from excess and deficiency to fund the fiscal year 2018 budget.

The School Committee meeting on March 6, 2017 projected a fiscal year 2018 operating and capital budget as follows:

Operating	\$ 21,535,028
Capital	<u>30,750</u>
	<u>\$ 21,565,778</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, 2017**

	Primary Government Governmental Activities
ASSETS	
CURRENT:	
Cash and Cash Equivalents	\$ 7,028,064
Receivables, net of allowance for uncollectibles:	
Intergovernmental	442,987
Total current assets	7,471,051
NONCURRENT:	
Capital Assets, net of accumulated Depreciation:	
Nondepreciable	21,000
Depreciable	72,118,532
Total noncurrent assets	72,139,532
Total Assets	79,610,583
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	648,000
LIABILITIES	
CURRENT:	
Warrants and Accounts Payable	175,900
Accrued Payroll	1,088,238
Payroll Withholdings	5,998
Other	47,747
Accrued Interest	92,600
Compensated Absences	108,410
Betterment Payable	30,750
Bond Anticipation Notes Payable	3,000,000
Bonds Payable	665,000
Total current liabilities	5,214,643
NONCURRENT:	
Compensated Absences	433,638
Betterment Payable	153,750
OPEB Obligation Payable	8,330,220
Net Pension Liability	4,529,000
Bonds Payable	25,350,000
Total noncurrent liabilities	38,796,608
Total Liabilities	44,011,251
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	115,000
NET POSITION	
Net Investment in Capital Assets	42,940,032
Restricted for:	
Federal & State Grants	261,592
Capital Projects	2,136,120
Other Purposes	283,505
Unrestricted	(9,488,917)
Total Net Position	\$ 36,132,332

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, 2017**

	Program Revenues				Net (Expenses)
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position	
Governmental Activities:					
Administration	\$ 760,676	\$ -	\$ -	\$ -	\$ (760,676)
Instruction	10,630,066	-	263,402	-	(10,366,664)
Other School Services	4,509,092	1,173,799	1,617,973	-	(1,717,320)
Operation and Maintenance	1,443,568	5,836	-	-	(1,437,732)
Fixed Charges	7,651,031	-	3,659,876	-	(3,991,155)
Special Education	1,169,092	-	457,151	-	(711,941)
Interest	955,139	-	-	-	(955,139)
Capital Acquisitions	-	-	-	42,988	42,988
Depreciation	2,270,647	-	-	-	(2,270,647)
Total Governmental Activities	29,389,311	1,179,635	5,998,402	42,988	(22,168,286)
General Revenues:					
Assessments to member communities					9,813,815
Grants & Contributions not restricted to specific programs					10,214,569
Unrestricted Investment Income					16,211
Other					37,722
Total General Revenues					20,082,317
					Change in Net Position
					(2,085,969)
					Net Position:
					Beginning of year
					38,218,301
					End of year
					\$ 36,132,332

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, 2017

	General Fund	Renovation/ Addition Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 3,244,065	\$ 1,750,076	\$ 2,033,923	\$ 7,028,064
Receivables, net of allowances for accounts: Intergovernmental	-	386,044	56,943	442,987
Total Assets	\$ 3,244,065	\$ 2,136,120	\$ 2,090,866	\$ 7,471,051
Liabilities:				
Warrants and Accounts Payable	\$ 155,881	\$ -	\$ 20,019	\$ 175,900
Accrued Payroll	1,088,238	-	-	1,088,238
Payroll withholdings	5,998	-	-	5,998
Other	47,747	-	-	47,747
Bond Anticipation Notes Payable	-	3,000,000	-	3,000,000
Total Liabilities	1,297,864	3,000,000	20,019	4,317,883
Fund Balances:				
Restricted	-	-	1,520,876	1,520,876
Committed	-	-	549,971	549,971
Assigned	464,939	-	-	464,939
Unassigned	1,481,262	(863,880)	-	617,382
Total Fund Balances	1,946,201	(863,880)	2,070,847	3,153,168
Total Liabilities and Fund Balance	\$ 3,244,065	\$ 2,136,120	\$ 2,090,866	\$ 7,471,051

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, 2017

	General Fund	Renovation/ Addition Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Assessments to Member Towns	\$ 9,813,815	\$ -	\$ -	\$ 9,813,815
Charges for Services	-	-	1,179,635	1,179,635
Intergovernmental	11,259,528	-	1,254,034	12,513,562
Investment Income	15,897	-	314	16,211
MTRS On-behalf Payments	3,595,751	-	-	3,595,751
Gifts and Contributions	-	-	36,131	36,131
Other	105,249	42,988	-	148,237
Total Revenues	24,790,240	42,988	2,470,114	27,303,342
Expenditures:				
Current:				
Administration	770,173	-	-	770,173
Instruction	10,579,693	-	269,310	10,849,003
Other School Services	2,946,266	-	1,562,826	4,509,092
Operation and Maintenance	1,438,842	-	-	1,438,842
Fixed Charges	6,679,363	-	-	6,679,363
Acquisitions	73,305	-	-	73,305
Special Education	689,753	-	479,339	1,169,092
Capital Outlay	-	36,343	340,127	376,470
Debt Service:				
Principal	640,000	-	-	640,000
Interest and fees	948,739	-	-	948,739
Total Expenditures	24,766,134	36,343	2,651,602	27,454,079
Excess of Revenues Over (Under) Expenditures	24,106	6,645	(181,488)	(150,737)
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	(39,804)	6,645	(117,578)	(150,737)
Fund Balances, Beginning of Year	1,986,005	(870,525)	2,188,425	3,303,905
Fund Balances, End of Year	\$ 1,946,201	\$ (863,880)	\$ 2,070,847	\$ 3,153,168

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, 2017

Total Governmental Fund Balances		\$	3,153,168
Capital Assets (net) used in governmental activities are not financial resources and therefore, are not reported in the funds.			72,139,532
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.			533,000
Long Term liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds:			
Bonds Payable	\$	(26,015,000)	
Betterment Payable		(184,500)	
OPEB Obligation Payable		(8,330,220)	
Net Pension Liability		(4,529,000)	
Compensated Absences		(542,048)	(39,600,768)
In the statement of activities, interest is accrued on outstanding long term debt, whereas in the governmental funds interest is not reported until due.			(92,600)
Net Position of Governmental Activities		\$	36,132,332

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, 2017

Net Change in Fund Balances - Total Governmental Funds \$ (150,737)

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	\$ 578,844	
Depreciation	<u>(2,270,647)</u>	(1,691,803)

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>640,000</u>	670,750

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	63,889	
Net Change in OPEB Obligation Payable	(814,668)	
Net Change in Deferred Outflow/(Inflow) of Resources related to Pensions	335,000	
Net Change in Net Pension Liability	(492,000)	
Net Change in Accrued Interest on Long-Term Debt	<u>(6,400)</u>	<u>(914,179)</u>

Change in Net Position of Governmental Activities \$ (2,085,969)

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, 2017

	<u>Budgeted Amounts</u>			<u>Actual Budgetary Basis</u>	<u>Amounts Carried Forward to Next Year</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Amounts Carried Forward from Prior Year</u>	<u>Original Budget</u>	<u>Final Budget</u>			
	\$	\$	\$			
Revenues:						
Assessments to Member Towns	-	9,863,178	9,813,815	9,813,815	-	-
Intergovernmental	-	11,013,689	11,053,449	11,259,528	-	206,079
Investment Income	-	-	-	15,359	-	15,359
Miscellaneous	-	-	-	105,249	-	105,249
Total Revenues	-	20,876,867	20,867,264	21,193,951	-	326,687
Expenditures:						
Current:						
Administration	988	725,414	784,303	770,173	8,302	5,828
Instruction	169,546	10,390,670	10,671,134	10,579,693	31,325	60,116
Other School Services	27,222	2,860,354	2,996,947	2,946,266	9,803	40,878
Operation and Maintenance	110,718	1,357,102	1,533,102	1,438,842	64,651	29,609
Fixed Charges	-	3,247,447	3,112,062	3,083,612	-	28,450
Acquisitions	-	72,551	73,305	73,305	-	-
Special Education	-	705,380	696,539	689,753	-	6,786
Debt Service:						
Principal	-	640,000	640,000	640,000	-	-
Interest and fees	-	948,741	948,741	948,739	-	2
Total Expenditures	308,474	20,947,659	21,456,133	21,170,383	114,081	171,669
Excess of Revenues Over (Under) Expenditures	(308,474)	(70,792)	(588,869)	23,568	(114,081)	498,356
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	(308,474)	(134,702)	(652,779)	\$ (40,342)	\$ (114,081)	\$ 498,356
Other Budgetary Items:						
Free Cash and Other Reserves	-	134,702	344,305			
Prior Year Encumbrances	308,474	-	308,474			
Total Other Budgetary Items	308,474	134,702	652,779			
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, 2017

	Revenues	Expenditures
Reported on a Budgetary Basis	\$ 21,193,951	\$ 21,170,383
<i>Adjustments:</i>		
Activity for Stabilization Fund Recorded in the General Fund for GAAP Purposes	538	-
Recognition of Intergovernmental Revenue - "on behalf payments"	3,595,751	-
Recognition of Expenditures - "on behalf payments"	-	3,595,751
Reported on a GAAP Basis	\$ 24,790,240	\$ 24,766,134

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, 2017

	Other Post Employment Benefits Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and Cash Equivalents	\$ -	\$ 43,174	\$ 167,374
Investments	215,519	-	-
Total Assets	215,519	43,174	167,374
LIABILITIES			
Due to Student Groups	-	-	167,374
Total Liabilities	-	-	167,374
NET POSITION			
Held in Trust for Other Purposes	\$ 215,519	\$ 43,174	\$ -

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, 2017**

	Other Post Employment Benefits Trust Fund	Private Purpose Trust Funds
Additions		
Employer Contributions	\$ 289,801	\$ -
Private Donations	-	6,125
Investment Income	15,237	67
Total Additions	305,038	6,192
Deductions:		
Insurance and Employee Benefits	239,801	-
Scholarships	-	5,900
Total Deductions	239,801	5,900
Change in Net Position	65,237	292
Net Position at Beginning of Year	150,282	42,882
Net Position at End of Year	\$ 215,519	\$ 43,174

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, 2017**

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 2017, 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, 2017**

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, 2017**

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, 2017**

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

The District maintains investments according to Massachusetts General Laws and adopted policies. Investments are reported according to the fair value hierarchy established by generally accepted accounting principles. Investments are defined as securities or other assets that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy is based upon valuation inputs, which are assumptions that market participants would use when pricing an asset or a liability, including assumptions about risk.

Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 inputs are directly observable for an asset or a liability (including quoted prices for similar assets or liabilities), as well as inputs that are indirectly observable for the asset or liability.

Level 3 inputs are unobservable for the asset or liability.

Certain investments, such as money market investments and 2a7-like external investment pools, are reported at amortized cost. 2a7-like pools are external investment pools that operate in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended and should be measured at the net asset value per share provided by the pool.

Additional investment disclosures are presented in these Notes.

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.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2017**

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.

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.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2017**

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.

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, total liabilities and deferred inflows of resources 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.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2017**

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, 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).

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2017**

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.

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.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2017**

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 \$652,779. The District voted \$344,305 from the excess and deficiency account to fund the deficit budget and \$308,474 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.

For the year ended June 30, 2017, the assessments were calculated as follows:

	Operating Contribution	Transportation Contribution	Capital and Debt Contribution	Additional Local Contribution	Total Assessment
Auburn	\$ 839,179	\$ 37,023	\$ 217,336	\$ -	\$ 1,093,538
Charlton	1,411,885	75,307	200,817	-	1,688,009
Dudley	596,422	51,748	164,216	-	812,386
North Brookfield	285,697	16,408	63,970	15,057	381,132
Oxford	1,251,914	70,259	183,488	-	1,505,661
Paxton	170,547	7,152	65,427	14,723	257,849
Rutland	219,555	13,463	146,726	-	379,744
Southbridge	742,325	74,466	227,862	-	1,044,653
Spencer	991,365	64,790	143,163	34,130	1,233,448
Webster	1,143,595	67,314	206,486	-	1,417,395
Total	\$ 7,652,484	\$ 477,930	\$ 1,619,491	\$ 63,910	\$ 9,813,815

C. Deficit Fund Balances

The following fund has a deficit at June 30, 2017 as measured by the balance of the fund balance.

- The school renovation/addition project fund, a major fund, incurred a deficit of \$863,880. 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.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2017**

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, 2017 were \$7,810,997. 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 income instruments, including U. S. Government obligations and highly-rated corporate securities with maturities of one year or less. The MMDT is an external investment pool that meets the criteria established under GASB Statement No. 79 to report its investments at amortized cost.

As of June 30, 2017, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>
Other Investments:	
Equity mutual funds	<u>\$ 215,519</u>

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 \$215,519 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.

**SOUTHERN WORCESTER COUNTY REGIONAL
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Credit Risk

The District does not have any exposure to credit risk as of June 30, 2017.

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.

Fair Value of Investments

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2017:

Investment Type	Fair Value	Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Equity mutual funds	\$ 215,519	\$ 215,519	\$ -	\$ -

Investments classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets for those securities.

B. Receivables

At June 30, 2017, receivables for the individual non-major governmental funds, including the applicable allowances for uncollectible accounts, are as follows:

Major and Non-major governmental funds:	Gross	Allowance	Net
	Amount	for Uncollectibles	Amount
Intergovernmental	\$ 442,987	\$ -	\$ 442,987

**SOUTHERN WORCESTER COUNTY REGIONAL
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The composition of the intergovernmental receivables as of June 30, 2017 for government funds is as follows:

Governmental Funds:

Renovation/Addition Project Fund:

Commonwealth of Massachusetts:

Massachusetts School Building Authority:
School Building Assistance - capital portion \$ 386,044

Nonmajor Governmental Funds:

U. S. Department of Agriculture

School lunch \$ 12,728

U. S. Department of Education

School title grants 42,641

Commonwealth of Massachusetts:

Department of Elementary and Secondary Education:
School lunch 311

Other:

Harvard House Private Grant 1,263 56,943
\$ 442,987

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017, is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 21,000	\$ -	\$ -	\$ 21,000
	21,000	-	-	21,000
Capital assets being depreciated:				
Buildings and renovations	75,915,088	43,443	-	75,958,531
Machinery, equipment and other	6,624,879	535,401	(271,554)	6,888,726
Infrastructure	2,515,521	-	-	2,515,521
Total capital assets being depreciated	85,055,488	578,844	(271,554)	85,362,778
Less accumulated depreciation for:				
Buildings and renovations	5,619,936	1,813,322	-	7,433,258
Machinery, equipment and other	5,009,343	341,269	(271,554)	5,079,058
Infrastructure	615,874	116,056	-	731,930
Total accumulated depreciation	11,245,153	2,270,647	(271,554)	13,244,246
Total capital assets being depreciated, net	73,810,335	(1,691,803)	-	72,118,532
Total governmental activities capital assets, net	\$ 73,831,335	\$ (1,691,803)	\$ -	\$ 72,139,532

**SOUTHERN WORCESTER COUNTY REGIONAL
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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 \$2,270,647.

D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2017, 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, 2017 for governmental funds is as follows:

Governmental Funds:	
Tailings (Unclaimed funds)	\$ 47,747

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, 2016	Renewed/ Issued	Retired/ Redeemed	Outstanding June 30, 2017
Bond Anticipation Note:						
School construction	0.75%	12/16/2016	\$ 3,000,000	\$ -	\$ 3,000,000	\$ -
School construction	1.05%	9/15/2017	-	3,000,000	-	3,000,000
Total Governmental Activities			\$ 3,000,000	\$ 3,000,000	\$ 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, 2017 is \$184,500.

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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.

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, 2017
Outside Debt:					
School renovation/addition project	2.84%	2/14/2013	6/1/2042	\$ 9,100,000	\$ 8,300,000
School renovation/addition project	3.84%	2/13/2014	6/1/2043	9,300,000	8,845,000
School renovation/addition project	3.29%	1/20/2015	6/1/2044	9,200,000	8,870,000
Total General Obligation Bonds					<u>\$ 26,015,000</u>

Future Debt Service

The annual principal and interest payments to retire all general obligation long-term debt outstanding as of June 30, 2017, are as follows:

Year	Principal	Interest	Total
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	750,000	814,101	1,564,101
2023-2027	4,105,000	3,664,709	7,769,709
2028-2032	4,745,000	2,989,843	7,734,843
2033-2037	5,555,000	2,153,125	7,708,125
2038-2042	6,615,000	1,037,690	7,652,690
2043-2044	1,470,000	72,087	1,542,087
	<u>\$ 26,015,000</u>	<u>\$ 14,223,315</u>	<u>\$ 40,238,315</u>

**SOUTHERN WORCESTER COUNTY REGIONAL
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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, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due within One Year
Governmental activities:					
Bonds Payable:					
General obligation bonds	\$ 26,655,000	\$ -	\$ 640,000	\$ 26,015,000	\$ 665,000
Betterment - sewer tie-in	215,250	-	30,750	184,500	30,750
Compensated absences	605,937	21,818	85,707	542,048	108,410
OPEB Obligation payable	7,515,552	814,668	-	8,330,220	-
Net pension liability	4,037,000	492,000	-	4,529,000	-
Governmental activity					
Long-term liabilities	<u>\$ 39,028,739</u>	<u>\$ 1,328,486</u>	<u>\$ 756,457</u>	<u>\$ 39,600,768</u>	<u>\$ 804,160</u>

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, 2017 and are not reflected in the District's financial statements are as follows:

Date District Meeting Authorized	Purpose	Amount
8/6/2012	Baypath regional vocational high school renovation/addition project	<u>\$ 989,324</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
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H. Fund Balances

The following is a summary of the District's Governmental fund balances at the year ended June 30, 2017:

	General Fund	Renovation/ Addition Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Restricted:				
Grants	\$ -	\$ -	\$ 261,592	\$ 261,592
Revolving funds	-	-	975,779	975,779
Gifts and donations	-	-	198,678	198,678
Reserve for debt	-	-	84,827	84,827
	-	-	1,520,876	1,520,876
Committed:				
Capital improvement projects	-	-	549,971	549,971
Assigned:				
Administration and benefits	8,302	-	-	8,302
Instruction	31,325	-	-	31,325
Other school services	9,803	-	-	9,803
Operation and maintenance	64,651	-	-	64,651
Subsequent year's expenditures	350,858	-	-	350,858
	464,939	-	-	464,939
Unassigned:				
General fund	1,481,262	-	-	1,481,262
Deficit capital projects funds	-	(863,880)	-	(863,880)
	1,481,262	(863,880)	-	617,382
Total Governmental fund balances	\$ 1,946,201	\$ (863,880)	\$ 2,070,847	\$ 3,153,168

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, 2017, the balance in the stabilization fund is \$351,586 and is reported in the General Fund as unassigned fund balance.

**SOUTHERN WORCESTER COUNTY REGIONAL
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Notes to the Financial Statements
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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 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, 2017, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the District at June 30, 2017.

The District has received state and federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for any expenditure disallowed under the terms of the grant. The amount, if any, of expenditures which may be disallowed cannot be determined at this time, although, based on prior experience, District management believes such disallowances, if any, will not be material.

C. Subsequent Events

Management has evaluated subsequent events through December 15, 2017, which is the date the financial statements were available to be issued.

D. 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.

**SOUTHERN WORCESTER COUNTY REGIONAL
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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 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, 2016. The District's portion of the collective pension expense contributed by the Commonwealth of \$3,595,751 on-behalf payments for the fiscal year ending June 30, 2017 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, 2016 was \$454,200, representing 23.6% 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.

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
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Pension Liability

As of June 30, 2017, the District reported a liability of \$4,529,000 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. 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, 2016, the District's proportional percentage was 12.94%, which was a slight increase from the last measurement.

Pension Expense

For the year ended June 30, 2017, the District recognized a pension expense of \$602,000 and reported deferred outflows of resources related to pensions of \$648,000, from the changes of assumptions and the net difference between projected and actual investment earnings on pension plan investments and deferred inflows of resources related to pensions of \$115,000 from differences between expected and actual experience. 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, 2016.

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);

<u>For years ended June 30,</u>	
2018	\$ 140
2019	140
2020	136
2021	63
2022	<u>54</u>
	<u><u>\$ 533</u></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 that was updated December 31, 2016;

Actuarial cost method	Entry Age Normal Cost Method
Asset valuation method	The actuarial value of assets is determined in accordance with the deferred recognition method under which 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years ago, etc., so that 100% of gains and losses occurring five years ago are recognized. The actuarial valuation of assets will be adjusted, if necessary, in order to remain between 90% and 110% of market value.
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

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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 generationally with Scale BB and a base year of 2009 (gender distinct). Post retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct). For disabled retirees, the rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).

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.

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, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Capital Equities	14.5%	7.50%
Mid/Small Capital Equities	3.5%	7.75%
International Equities	16.0%	7.83%
Emerging International Equities	6.0%	9.61%
Core Bonds	5.0%	4.00%
20+ Year Treasury STRIPS	5.0%	3.75%
TIPS	3.0%	3.75%
High-Yield Bonds	1.5%	5.75%
Bank Loans	1.5%	6.00%
EMD (External)	1.0%	5.75%
EMD (Local Currency)	2.0%	6.50%
Private Debt	4.0%	9.06%
Private Equity	10.0%	9.50%
Real Estate	10.0%	6.50%
Timberland	4.0%	6.00%
Hedge Funds & Portfolio Completion	13.0%	6.48%
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, 2016, the annual money-weighted rate of return was approximately 7.41%.

**SOUTHERN WORCESTER COUNTY REGIONAL
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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 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 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 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 7.50%. 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate (dollar amounts expressed in thousands):

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's net pension liability	\$ 5,718	\$ 4,529	\$ 3,523

E. Other Post Employment Benefits Payable

GASB Statement No. 45

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions, requires Districts to account for OPEB, primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns the post employment benefits, rather than when they use them. To the extent that an entity does not fund their actuarially required contribution, a post employment benefit liability is recognized on the Statement of Net Position.

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 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.

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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 2017 fiscal year, total School District premiums plus implicit costs for the retiree medical program are \$239,801.

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	\$	738,922
Amortization of unfunded actuarial accrued liability		598,373
Annual required contribution		1,337,295
Interest on net OPEB obligation		150,311
Adjustment to annual required contribution		(433,137)
Annual OPEB cost (expense)		1,054,469
Contributions made during the fiscal year		(239,801)
Increase in net OPEB obligation		814,668
Net OPEB Obligation - beginning of year		7,515,552
Net OPEB Obligation - end of year		\$ 8,330,220

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2017 fiscal year and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 1,054,469	22.7%	\$ 8,330,220
6/30/2016	\$ 1,042,804	21.9%	\$ 7,515,552
6/30/2015	\$ 936,171	26.4%	\$ 6,701,130

Funded Status and Funding Process

As of June 30, 2017, the most recent valuation date, the plan was 2.08% funded. The actuarial liability for benefits was \$10,382,631, and the actuarial value of assets was \$215,519; resulting in an unfunded actuarial accrued liability (UAAL) of \$10,167,112. 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.

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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, 2017, used the entry age normal actuarial cost method. The OPEB liability is currently 2.08% funded and the actuarial assumptions include an interest discount rate of 2.0% per year, net of expenses, for an unfunded plan and 7.00% per year, net of expenses, for a funded 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 rate 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 an entry age normal actuarial cost method. The remaining amortization period at June 30, 2017 is 21 years.

GASB Statement No. 74

The District did establish a trust fund in order to contribute funds to reduce the future OPEB liability. As of June 30, 2017 the trust balance is \$215,519.

Investments

The OPEB Trust fund does not have a formal investment policy. As of June 30, 2017, the trust is concentrated in cash as described earlier under Deposits and Investment Policies (refer to note 3A).

Net OPEB Liability

The components of the net OPEB liability are as follows:

	June 30, 2017
Total OPEB liability	\$ 10,382,631
Less: Plan fiduciary net position	(215,519)
City's Net OPEB liability	\$ 10,167,112
Plan fiduciary net position as a percentage of the total OPEB liability	2.08%

**SOUTHERN WORCESTER COUNTY REGIONAL
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Year Ended June 30, 2017**

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified;

Valuation date	June 30, 2017
Actuarial cost method	Entry Age Normal
Inflation rate	2.00% annually
Participant salary increases	3.84% annually
Investment rate of return	2.00% annually
Healthcare cost trend rates	4.90% in year 1, growing to 5.30%, then, reducing to an ultimate trend rate of 3.95% annually
Mortality rates	RP-2014 Mortality Table (combined healthy lives) with projected mortality

The actuarial assumptions used in the June 30, 2017 valuation were reflective of published municipal bond indices; the S&P Municipal Bond 20-year High Grade Rate Index as of June 30, 2017 is 3.60%. The District elected to keep the discount rate at 2.0%, which is what has been used the past several years.

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return (which expresses investment performance), net of investment expense was 8.54%.

Discount Rate

The discount rate used to measure the total OPEB liability was 2.00%. 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 Massachusetts General Law Chapter 32. Based on those assumptions, the OPEB plan fiduciary 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the District's net OPEB liability as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.00%) or 1-percentage-point higher (3.00%) than the current rate:

	1% Decrease	Current	1% Increase
	1.00%	Discount Rate	3.00%
		2.00%	
District's net OPEB liability	\$ 11,840,707	\$ 10,167,112	\$ 8,827,141

**SOUTHERN WORCESTER COUNTY REGIONAL
VOCATIONAL SCHOOL DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2017**

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

The following presents the District's the net OPEB liability as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (each year 1.0% below base) or 1-percentage-point higher (each year 1.0% above base) than the current healthcare cost trend rates:

		Healthcare Cost Trend Rate		
	1% Decrease (Each year 1.0% below base)	(4.9% growing to 5.3% then reducing to 3.95%	1% Increase (Each year 1.0% above base)	
District's net OPEB liability	\$ 8,853,338	\$ 10,167,112	\$ 11,765,067	

F. Implementation Of New GASB Pronouncements

The GASB issued Statement No. 74, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, for implementation in fiscal year 2017.

The GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*, for implementation in fiscal year 2017.

The GASB issued Statement No. 82, *Pension Issues – an amendment of GASB No. 67, No. 68, and No. 73*, for implementation in fiscal year 2017.

G. 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. 75, *Accounting and Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, for implementation in fiscal year 2018.

The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, for implementation in fiscal year 2018.

The GASB issued Statement No. 87, *Leases*, for implementation in fiscal year 2021.

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, 2017

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>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
District's proportion of the net pension liability (asset)	12.94%	12.26%	12.34%
District's proportionate share of the net pension liability (asset)	\$ 4,529	\$ 4,037	\$ 3,814
District's covered employee payroll	\$ 1,923	\$ 1,833	\$ 1,846
Net pension liability percentage of covered-employee payroll	235.5%	220.2%	206.6%
Plan fiduciary net position as a percentage of the total pension liability	56.3%	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, 2017

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>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Actuarially determined contribution	\$ 454	\$ 409	\$ 392
Less: Contributions in relation to the actuarially determined contribution	<u>(454)</u>	<u>(409)</u>	<u>(392)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,923	\$ 1,833	\$ 1,846
Contributions percentage of covered-employee payroll	23.6%	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 (GASB 45) Schedule
Year Ended June 30, 2017

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)	
6/30/2017	\$ 215,519	\$ 10,382,631	\$ 10,167,112	2.1%	N/A	N/A	
6/30/2016	\$ 150,282	\$ 10,402,954	\$ 10,252,672	1.4%	N/A	N/A	
6/30/2015	\$ 96,481	\$ 9,651,772	\$ 9,555,291	1.0%	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
2017	\$ 1,054,469	\$ 239,801	22.7%
2016	\$ 1,042,804	\$ 228,382	21.9%
2015	\$ 936,171	\$ 247,323	26.4%

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 the Basic Financial Statements.

Actuarial Methods:

Valuation date	June 30, 2017
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	250

SOUTHERN WORCESTER COUNTY REGIONAL VOCATIONAL SCHOOL DISTRICT
Required Supplementary Information
Other Post Employment Benefit Plan (GASB 74) Schedules
For the Year Ended June 30, 2017

Schedule of Changes in the Net OPEB Liability:

	6/30/2017
Total OPEB liability	
Service cost	\$ 738,922
Interest on net OPEB liability	208,059
Changes in Assumptions	(727,503)
Benefit payments, including refunds of member contributions	(239,801)
Net change in total OPEB liability	(20,323)
Total OPEB liability-beginning	10,402,954
Total OPEB liability-ending (a)	\$ 10,382,631
 Plan fiduciary net position	
Net investment income	\$ 15,237
Employer contributions to Trust	50,000
Net change in plan fiduciary net position	65,237
Total fiduciary net position-beginning	150,282
Total fiduciary net position-ending (b)	\$ 215,519
 District's net OPEB liability (a-b)	\$ 10,167,112

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
Other Post Employment Benefit Plan (GASB 74) Schedules
For the Year Ended June 30, 2017

Schedule of Net OPEB Liability:

	6/30/2017
Total OPEB liability	\$ 10,382,631
Less: Plan fiduciary net position	(215,519)
District's Net OPEB liability	\$ 10,167,112
 Plan fiduciary net position as a percentage of the total OPEB liability	2.08%
 District's covered employee payroll	\$ 12,698,508
 Participating employer net OPEB liability (asset) as a percentage of covered-employee payroll	80.07%

Schedule of Contributions:

	6/30/2017
Actuarially determined contribution	\$ 1,371,396
Less: Contributions in relation to the actuarially determined contribution	(50,000)
Contribution deficiency (excess)	\$ 1,321,396
 District's share of covered employee payroll	\$ 12,698,508
 Contributions percentage of covered-employee payroll	0.39%

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.

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, 2017**

	Fund Balances July 1, 2016	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2017
Special Revenue Funds:					
Federal Grants:					
School Grants	\$ 68,366	\$ 658,016	\$ 684,266	\$ -	\$ 42,116
Department of Youth Services Grants	200	-	-	-	200
State Grants:					
School Grants	114,517	58,206	166,583	-	6,140
Cultural Council Grants	200	-	-	-	200
Wind Feasibility Study Grant	3,901	-	-	-	3,901
Revolving Accounts:					
School Lunch Program	162,938	404,040	362,227	-	204,751
School Lunch Commodities	-	31,914	31,914	-	-
Athletic Revolving	44,662	6,740	15,479	-	35,923
Evening School Revolving	(54,915)	336,655	329,583	-	(47,843)
Facilities Rental Revolving	12,712	5,835	3,113	-	15,434
Out of District Tuition Revolving	57,274	1,223	1,160	-	57,337
Practical Nursing Revolving	245,586	538,694	497,084	-	287,196
Shop Revolving	214,395	326,036	300,887	-	239,544
Summer School Revolving	21,933	11,175	13,408	-	19,700
Summer Youth Camps	-	16,318	3,909	-	12,409
Tuition Revolving	325,655	30,423	-	-	356,078
Other:					
Premium on Bond	84,827	-	-	-	84,827
Gifts and Donations	238,134	36,444	75,900	-	198,678
Private Grants and Programs	8,771	8,395	12,881	-	4,285
Total Special Revenue Funds	\$ 1,549,156	\$ 2,470,114	\$ 2,498,394	\$ -	\$ 1,520,876

**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, 2017**

	Fund Balances July 1, 2016	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balances June 30, 2017
Capital Projects Funds:					
Welding Booth	\$ 76,461	\$ -	\$ -	\$ (76,461)	\$ -
Dust Collector Replacement	462	-	-	(462)	-
School Bus Purchase	162,346	-	153,208	140,833	149,971
Water System Upgrade	400,000	-	-	-	400,000
Total Capital Projects Funds	639,269	-	153,208	63,910	549,971
Total Non-Major Governmental Funds	\$ 2,188,425	\$ 2,470,114	\$ 2,651,602	\$ 63,910	\$ 2,070,847