

***LINCOLN-SUDBURY REGIONAL SCHOOL DISTRICT***

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

***FISCAL YEAR ENDED JUNE 30, 2010***

LINCOLN-SUDBURY REGIONAL SCHOOL DISTRICT

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

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## Independent Auditors' Report

To the Honorable School Committee  
Lincoln-Sudbury Regional School District  
Sudbury, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lincoln-Sudbury Regional School District (District), as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 District, as of June 30, 2010, and the respective changes in financial position, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

August 2, 2011

***Management's Discussion and Analysis***

# **Management's Discussion and Analysis**

Financial Statements for the year ending June 30, 2010

This discussion and analysis of the Lincoln Sudbury Regional School District's (District) financial performance provides an overall review of the District's financial activities for the fiscal year ending June 30, 2010, with comparisons to FY '09 and, in some cases, FY '08. The intent of this discussion and analysis is to look at the District's financial performance as a whole. We encourage readers to review the basic financial statements and notes to the basic financial statements in order to enhance their understanding of the District's financial performance.

Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments issued in June 1999. Certain comparative information between the current year ending June 30, 2010, and the prior year ending June 30, 2009, is required in the MD&A and included herein. We have also included some comparisons to fiscal year ending June 30, 2008. All amounts, unless otherwise indicated, are expressed in whole dollars.

## **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Lincoln-Sudbury Regional 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.

**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 assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected revenues and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by member town assessment and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include providing pupil education at the one District school, facility maintenance, employee benefits, and central services. The District had no business type activities.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District has several governmental funds; one is considered a major fund for presentation purposes. This major fund, the High School Addition and Renovation fund, is presented in a separate column in the governmental funds balance sheet and in the government funds statement of revenue, expenditures, and changes in fund balances. The remaining governmental funds are aggregated and shown as other governmental funds.

The Lincoln-Sudbury Regional School 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 this budget.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

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

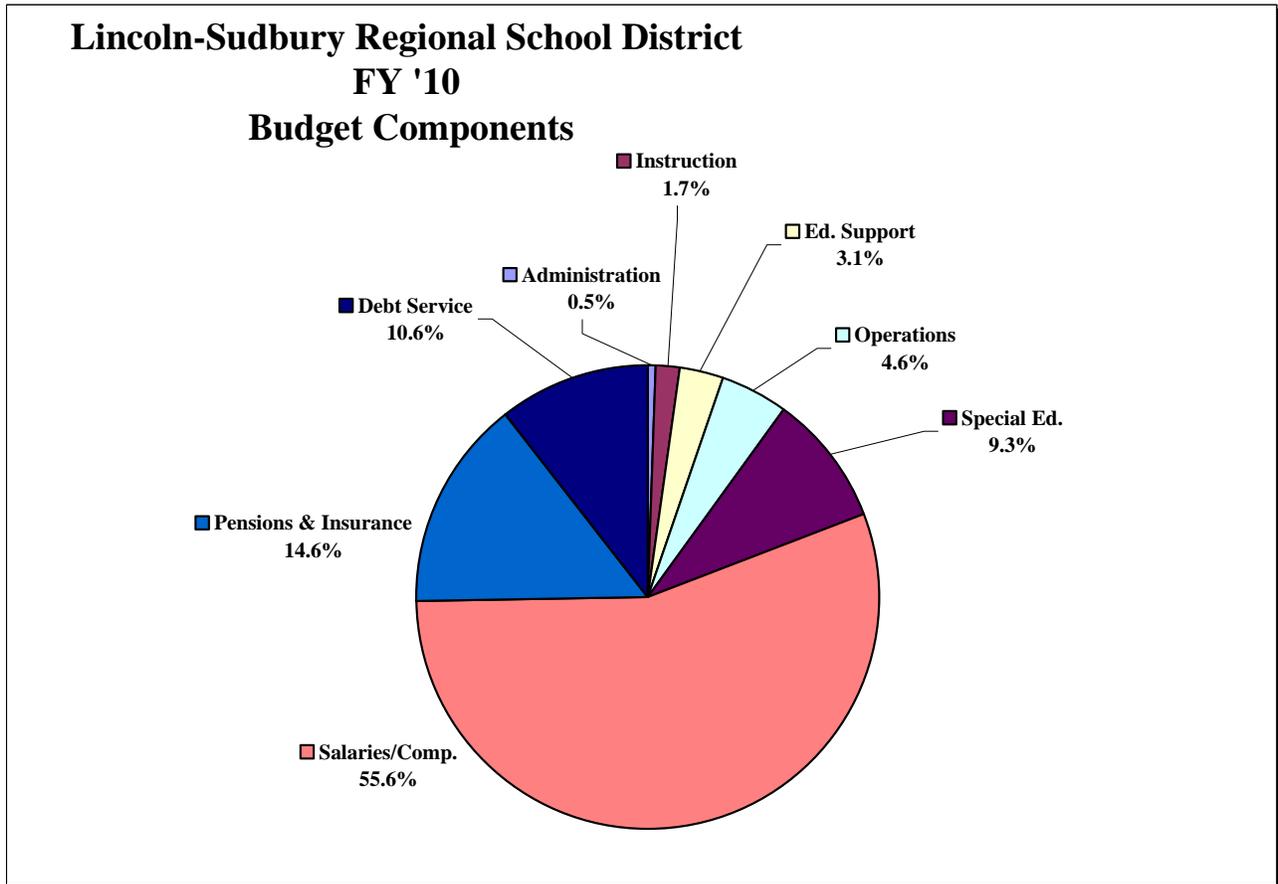
**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District's budgetary basis of accounting.

## **Government-wide Financial Analysis**

Lincoln-Sudbury Regional High School is a grades 9-12 Regional School District established pursuant to Chapter 71 of the General Laws of Massachusetts and operates in accordance with the Lincoln-Sudbury Regional Agreement.

As a regional school, Lincoln-Sudbury must include in its budget "ALL" costs associated with the running of the school district. Such costs not commonly found in non-regional school budgets, e.g., health, life, workers' compensation, unemployment and property/casualty insurances; FICA; retirement; and debt service are included in the regional school budget. These costs, referred to as Pensions & Insurance and Debt Service, amount to approximately 25.2% of the total FY '10 Budget of \$26.5 million which is up approximately \$334 thousand over the FY '09 Budget. The reason for this increase is primarily to increases in special education and pension.

The following chart shows the Budget Components for FY '10 Budget.



Chapter 70 State Aid and Regional Transportation Aid offset the annual budget. Other offsets to the budget include estimated receipts (income from the school lunch program, Medicaid funds, transcript fees), surpluses from the previous year's budget, investment income and the difference between what was anticipated in state aid in the previous year and what was actually received.

After taking these deductions, the net budget is apportioned to Lincoln and Sudbury in accordance with the October 1st student enrollment averaged over three years.

The following are the most recent budget ratios:

	<u>FY '10 Budget Ratios:</u>	<u>FY '09 Budget Ratios:</u>	<u>FY '08 Budget Ratios:</u>
Lincoln:	15.49%	15.19%	14.67%
Sudbury:	84.51%	84.81%	85.33%

You will note that Sudbury's apportioned share has gone down while Lincoln's share has grown during this timeframe.

Net assets of \$48.4 million reflects investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to pupils; consequently, these assets are not available for future spending. Although the investment in 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.

The governmental activities decreased \$1.6 million in Fiscal 2010. This decrease is attributable to the recognition of and additional other postemployment benefit expense of \$693,000 and the anticipated use of approximately \$929,000 in reserves to balance the budget.

**Financial Analysis of the Governmental Funds**

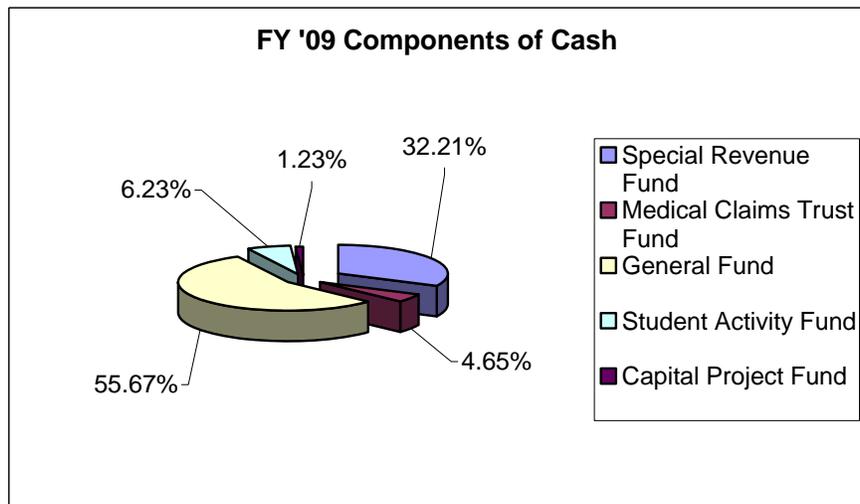
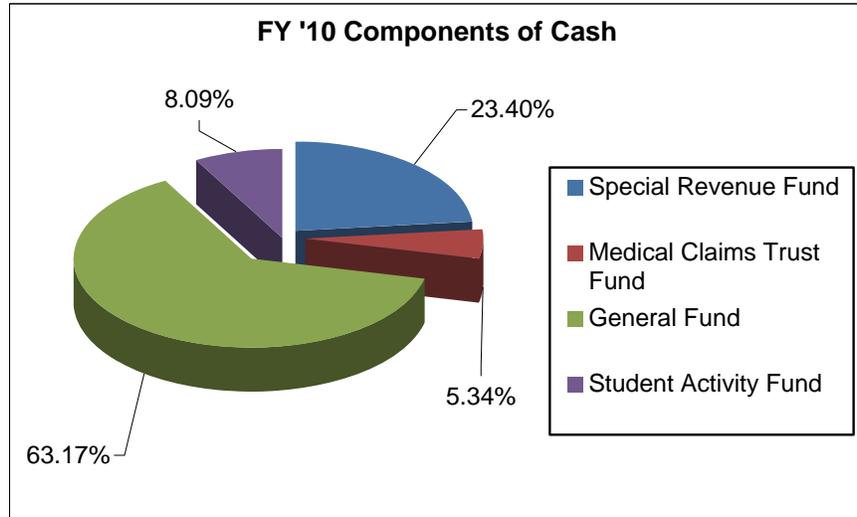
As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of 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, *unreserved 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 June 30, 2010, the District’s cash and short-term investment position was \$4.2 million which includes the following fund types:

<b>GOVERNMENTAL FUND TYPES:</b>	<b>FY '10</b>	<b>FY '09</b>	<b>FY '08</b>
General Fund.....	\$ 2,669,199	\$ 2,763,038	\$ 3,234,148
Special Revenue Fund.....	988,514	1,226,517	1,218,873
Capital Projects.....	-	59,985	59,985
<b>FIDUCIARY FUND TYPES:</b>			
Medical Claims Trust Fund.....	\$ 225,771	\$ 226,068	\$ 224,330
Agency Fund.....	341,627	303,114	306,099

This is a decrease of approximately \$353,000 from the prior year’s cash position.



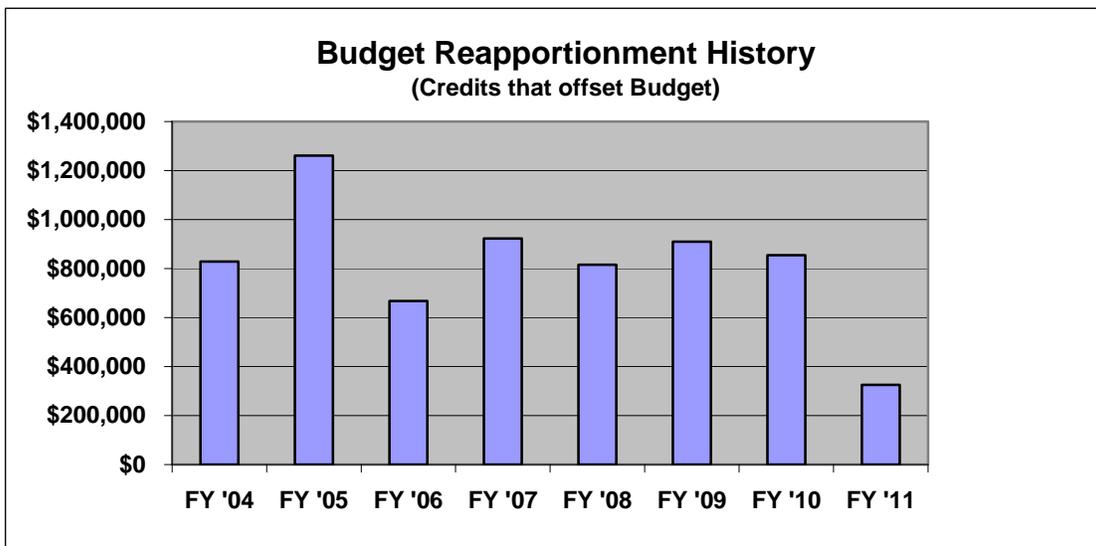
As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$3.3 million, a decrease of \$618,000 in comparison with the prior year. Most of the decrease is attributable to a planned use of reserves which was slightly offset by the timing of grant expenditures.

The general fund is the chief operating fund. At the end of the current fiscal year total fund balance was \$1.8 million. Reservation of fund balance for stabilization totaled \$497,000 while the reservation of fund balance for the excess and deficiency fund totaled \$381,000. Designation of fund balances for FY 2011 and FY 2012 totaled \$353,000 and \$456,000 respectively.

In accordance with the regional agreement, the District reserves the current year's budget surplus, if any, and earmarks (reapportions) it to be used as a funding source for the next budget process which is two years into the future. Accordingly, at the end of a fiscal year, the District will have fund balance designated for each of the two succeeding year's expenditures. The reapportionment includes budget surpluses, investment income and the difference between what was anticipated in state aid in the previous year and what was actually received. The FY '10 Budget closed with a total reapportionment (credit) to the Towns of Lincoln and Sudbury of \$455,817, which will be applied to the FY '12 Budget.

The following is a breakout of the reappropriations earned in FY '10, FY '09 and FY '08 which will offset future budgets.

	<u>FY '09</u>	<u>FY '08</u>	<u>FY '07</u>
Operating & Debt Service Surplus.....\$	188,697	\$ 345,215	\$ 328,294
Investment Income, receipts and voids.....	98,623	232,624	323,924
State Aid (over/(under) estimate).....	23,832	262,561	256,735
Previous Year's Encumbrance.....	<u>14,420</u>	<u>14,022</u>	<u>602</u>
 Total Reappropriation..... \$	 <u>\$ 325,572</u>	 <u>\$ 854,422</u>	 <u>\$ 909,555</u>



**Excess & Deficiency Fund**

State law allows regional school districts to save surplus funds up to five percent of their operating budget in an account known as an Excess and Deficiency Fund. The LS Regional Agreement further restricts funding such an account by requiring permission from both the Lincoln and Sudbury Finance Committees. In addition, the regional agreement restricts the use of funds from this account to extraordinary, nonrecurring expenses. Once funded, the school committee is authorized to make expenditures from this fund without further appropriation. The School District's Excess and Deficiency fund balance as of June 30, 2010 is \$380,851.

It is important to note here that unlike town departments the regional school district cannot request a transfer from the town's (Lincoln and/or Sudbury's) reserve accounts. A town meeting vote is required in order to appropriate funds to the district. Therefore, it is critical to establish an excess and deficiency fund, which actually works as the District's own reserve fund.

## **Stabilization Fund**

Again, state law allows regional school districts to set aside funds for capital improvements (statute specifies funds may be used for any purpose for which a regional school district may also borrow funds). The stabilization fund is funded through the budget process and may be spent after giving notification to the Selectmen in the towns. In FY '10 the fund balance equaled \$497,094.

## ***Capital Assets and Debt Administration***

The School District purchased a new pick-up truck in fiscal 2010. This was the only capital purchase during fiscal year.

The District's long-term bonds outstanding totaled \$15 million which is all related to the school building project. There were no short-term borrowings at fiscal year end.

The District maintains a AAA Bond Rating with Standard & Poor's on its short-term debt. This designation denotes superior credit quality. Lincoln-Sudbury Regional School District is one of twenty-one school districts nationwide, and the only school district in New England, to earn this highest financial rating. Previously only school districts with taxing authority earned such a rating. Analyst for Standard & Poor's attribute several factors in this rating which include the strong financial support of the towns of Lincoln and Sudbury, the district's affluent tax base with proximity to the metropolitan Boston economy, very high wealth and income levels, below-average unemployment, a stable financial position with consistent general fund surpluses, and a manageable debt position.

## ***Requests for Information***

This financial report is designed to provide a general overview of the Lincoln-Sudbury Regional School District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance and Operations and/or the District Treasurer, Lincoln-Sudbury Regional School District 390 Lincoln Road, Sudbury, MA 01776.

# ***Basic Financial Statements***

**STATEMENT OF NET ASSETS**

JUNE 30, 2010

		<u><b>Primary Government</b></u>
		<u>Governmental Activities</u>
<b>ASSETS</b>		
CURRENT:		
Cash and short-term investments.....	\$	3,883,484
Receivables, net of allowance for uncollectibles:		
Intergovernmental.....		323,546
NONCURRENT:		
Capital assets - nondepreciable.....		1,370,581
Capital assets, net of accumulated depreciation.....		<u>60,325,348</u>
TOTAL ASSETS.....		<u>65,902,959</u>
<b>LIABILITIES</b>		
CURRENT:		
Warrants payable.....		334,631
Accrued liabilities.....		439,048
Accrued interest.....		177,445
Other liabilities.....		88,300
Bonds and notes payable.....		2,150,000
NONCURRENT:		
Other postemployment benefits.....		1,434,107
Bonds and notes payable.....		<u>12,850,000</u>
TOTAL LIABILITIES.....		<u>17,473,531</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt.....		46,695,929
Unrestricted.....		<u>1,733,499</u>
TOTAL NET ASSETS.....	\$	<u><u>48,429,428</u></u>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Primary Government:</b>				
<i>Governmental Activities:</i>				
Administration .....	\$ 738,784	\$ -	\$ 1,374	\$ (737,410)
Instruction.....	14,727,664	-	-	(14,727,664)
Health services.....	104,238	-	-	(104,238)
Transportation.....	957,358	-	-	(957,358)
Athletics.....	417,055	-	-	(417,055)
Other student activities.....	72,068	-	-	(72,068)
Facilities.....	3,585,252	-	-	(3,585,252)
Retirement.....	3,543,956	-	-	(3,543,956)
Insurance.....	3,363,448	-	7,062	(3,356,386)
Tuition.....	1,997,099	-	-	(1,997,099)
Federal and state grants.....	894,687	-	952,634	57,947
Athletic revolving.....	266,482	387,122	-	120,640
Cafeteria.....	538,135	591,178	-	53,043
Other special revenue.....	659,190	618,005	279,802	238,617
Building and equipment.....	217,442	-	-	(217,442)
Interest.....	617,929	-	-	(617,929)
<b>Total Governmental Activities.....</b>	<b>\$ 32,700,787</b>	<b>\$ 1,596,305</b>	<b>\$ 1,240,872</b>	<b>\$ (29,863,610)</b>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

FISCAL YEAR ENDED JUNE 30, 2010

	<u>Primary Government</u>
	<u>Governmental Activities</u>
<b>Changes in net assets:</b>	
Net (expense) revenue from previous page.....	\$ <b>(29,863,610)</b>
<i>General revenues:</i>	
Member town assessments.....	22,613,972
Intergovernmental.....	5,557,689
Unrestricted investment income.....	12,058
Miscellaneous.....	<u>125,712</u>
Total general revenues and transfers.....	<u>28,309,431</u>
Change in net assets.....	(1,554,179)
<i>Net Assets:</i>	
Beginning of year.....	<u>49,983,607</u>
End of year.....	\$ <u><u>48,429,428</u></u>

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2010

<b>ASSETS</b>	General	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments.....	\$ 2,669,199	\$ 1,214,285	\$ 3,883,484
Receivables, net of uncollectibles:			
Intergovernmental.....	-	323,546	323,546
<b>TOTAL ASSETS.....</b>	<b>\$ 2,669,199</b>	<b>\$ 1,537,831</b>	<b>\$ 4,207,030</b>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Warrants payable.....	\$ 297,144	\$ 37,487	\$ 334,631
Accrued liabilities.....	439,048	-	439,048
Other liabilities.....	88,300	-	88,300
<b>TOTAL LIABILITIES.....</b>	<b>824,492</b>	<b>37,487</b>	<b>861,979</b>
 <b>FUND BALANCES:</b>			
Reserved for:			
Stabilization.....	497,094	-	497,094
Employee benefits.....	-	226,068	226,068
Debt service.....	185,373	-	185,373
Excess and deficiency.....	380,851	-	380,851
Unreserved:			
Designated for fiscal year 2011 expenditures.....	325,572	-	325,572
Designated for fiscal year 2012 expenditures.....	455,817	-	455,817
Undesignated, reported in:			
Special revenue funds.....	-	1,274,276	1,274,276
<b>TOTAL FUND BALANCES.....</b>	<b>1,844,707</b>	<b>1,500,344</b>	<b>3,345,051</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 2,669,199</b>	<b>\$ 1,537,831</b>	<b>\$ 4,207,030</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2010

Total governmental fund balances.....		\$	3,345,051
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....			61,695,929
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....			(177,445)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds			
Bonds and notes payable.....	(15,000,000)		
Other postemployment benefits.....	<u>(1,434,107)</u>		
Net effect of reporting long-term liabilities.....			<u>(16,434,107)</u>
Net assets of governmental activities.....		\$	<u><u>48,429,428</u></u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2010

	General	School Construction	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Member town assessments.....	\$ 22,613,972	\$ -	\$ -	\$ 22,613,972
Intergovernmental.....	5,557,689	-	1,332,303	6,889,992
Departmental and other.....	125,712	-	1,504,688	1,630,400
Investment income.....	12,058	-	186	12,244
<b>TOTAL REVENUES.....</b>	<b>28,309,431</b>	<b>-</b>	<b>2,837,177</b>	<b>31,146,608</b>
<b>EXPENDITURES:</b>				
Current:				
Administration .....	738,784	-	-	738,784
Instruction.....	13,551,215	-	547,753	14,098,968
Health services.....	104,238	-	-	104,238
Transportation.....	957,358	-	-	957,358
Athletics.....	417,055	-	-	417,055
Other student activities.....	72,068	-	-	72,068
Facilities.....	1,758,456	-	-	1,758,456
Retirement.....	3,543,956	-	-	3,543,956
Insurance.....	2,670,764	-	-	2,670,764
Tuition.....	1,997,099	-	-	1,997,099
Federal and state grants.....	-	-	894,687	894,687
Athletic revolving.....	-	-	266,482	266,482
Cafeteria.....	-	-	538,135	538,135
Other special revenue.....	-	-	659,190	659,190
Building and equipment.....	237,306	14,775	-	252,081
Debt service:				
Maturing debt.....	2,150,000	-	-	2,150,000
Interest.....	645,700	-	-	645,700
<b>TOTAL EXPENDITURES.....</b>	<b>28,843,999</b>	<b>14,775</b>	<b>2,906,247</b>	<b>31,765,021</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(534,568)</b>	<b>(14,775)</b>	<b>(69,070)</b>	<b>(618,413)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in.....	61,000	-	45,210	106,210
Transfers out.....	-	(45,210)	(61,000)	(106,210)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>61,000</b>	<b>(45,210)</b>	<b>(15,790)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(473,568)</b>	<b>(59,985)</b>	<b>(84,860)</b>	<b>(618,413)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>2,318,275</b>	<b>59,985</b>	<b>1,585,204</b>	<b>3,963,464</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 1,844,707</b>	<b>\$ -</b>	<b>\$ 1,500,344</b>	<b>\$ 3,345,051</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds..... \$ (618,413)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	34,639	
Depreciation expense.....	<u>(2,455,492)</u>	
Net effect of reporting capital assets.....		(2,420,853)

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 assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Debt service principal payments.....		2,150,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in accrued interest on long-term debt.....	27,771	
Net change in other postemployment benefits.....	<u>(692,684)</u>	
Net effect of recording long-term liabilities and amortizing bond premiums.....		<u>(664,913)</u>

Change in net assets of governmental activities.....		\$ <u><u>(1,554,179)</u></u>
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See notes to basic financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET ASSETS**

JUNE 30, 2010

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	Agency Funds
<b>ASSETS</b>	
CURRENT:	
Cash and short-term investments.....	\$ 341,627
	<hr/>
<b>LIABILITIES</b>	
Liabilities due depositors.....	\$ 341,627
	<hr/> <hr/>

See notes to basic financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Lincoln-Sudbury Regional School District, Sudbury, Massachusetts (District) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

**A. Reporting Entity**

The District was formed under Chapter 71 of the Massachusetts General Laws that, by agreement, serves the Towns of Lincoln and Sudbury (Member Towns) and provides public education for pupils from member towns in grades nine through twelve. A six-member School Committee governs the District, which consists of elected members from the member towns for a term of 3 years.

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

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

The district-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities* are primarily supported by taxes and intergovernmental revenues.

*Fund Financial Statements*

Separate financial statements are provided for governmental funds and fiduciary funds even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

*Major Fund Criteria*

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least 5 percent of the corresponding element for all governmental funds combined.

Additionally, any other governmental fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Fiduciary funds are reported by fund type.

### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

#### *District-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.

Other items not identifiable as program revenues are reported as general revenues.

The effect of interfund activity has been removed from the government-wide financial statements.

#### *Fund Financial Statements*

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

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

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

The following major governmental funds are reported:

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

The *school construction fund* is used to account for financial resources used to expand and upgrade the high school.

The nonmajor governmental funds consist of other special revenue and capital projects that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

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

**Fiduciary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The District has one fiduciary fund type, the *agency fund*, is used to account for student activity assets held in a purely custodial capacity.

#### *District-Wide and Fund Financial Statements*

For the government-wide financial statements and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

#### D. Cash and Investments

##### *Government-Wide and Fund Financial Statements*

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

#### E. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

#### ***Intergovernmental***

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

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

F. Inventories

*District-Wide and Fund Financial Statements*

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets

*District-Wide Financial Statements*

Capital assets, which include land, land improvements, buildings, machinery and equipment, are reported in the government-wide financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs with costs greater than \$10,000 and expected useful lives of greater than one year are capitalized at the date of acquisition or construction.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	5-50
Buildings.....	40
Machinery and equipment.....	10
Vehicles.....	5
Furniture and equipment.....	5

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

*Governmental Fund Financial Statements*

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

H. Interfund Receivables and Payables

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

*District-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 assets. Any residual balances outstanding between the governmental activities are reported in the statement of net assets as "internal balances".

*Fund Financial Statements*

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

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.

*District-Wide Financial Statements*

Operating transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

*Fund Financial Statements*

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. Net Assets and Fund Equity*District-Wide Financial Statements (Net Assets)*

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

Net assets have been "restricted for" the following:

"Gifts and grants" represents restrictions placed on assets from outside parties and consist primarily of gifts and federal and state grants.

*Fund Financial Statements (Fund Balances)*

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been "reserved for" the following:

"Stabilization" represents amounts established by a majority vote of the regional school committee and approving votes of member towns and is funded through the annual budget.

“Excess and deficiency” is regulated by the Lincoln-Sudbury Regional Agreement which states that this fund is to be funded from surpluses of the previous year and with the permission of both the Lincoln and Sudbury finance committees.

Fund balances have been “designated for” the following:

“Subsequent year’s expenditures” represents amounts appropriated for the subsequent year’s operating budget.

#### K. Long-term debt

##### *District-Wide Financial Statements*

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

##### *Governmental Fund Financial Statements*

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

#### L. Investment Income

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

#### M. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

##### *District-Wide Financial Statements*

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

##### *Governmental Fund Financial Statements*

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

#### N. Use of Estimates

##### *District-Wide and Fund Financial Statements*

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

## O. Total Column

### *District-Wide Financial Statements*

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

### *Fund Financial Statements*

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

## **NOTE 2 - CASH AND INVESTMENTS**

Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares. In addition, there are various restrictions limiting the amount and length of deposits and investments.

The District maintains a cash and investment pool that is available for use by all funds, except the Trust Funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Short-Term Investments". The deposits and investments of the Trust Funds are held separately from those of other District funds.

### Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has not formally adopted a policy for custodial credit risk of deposits. At fiscal year-end, the carrying amount of deposits totaled \$2,400,553 and the bank balance totaled \$3,333,453. Of the bank balance, \$1,000,000 was covered by Federal Depository Insurance, \$366,444 was covered by Federal Transaction Guarantee Program, \$92,682 was covered by the Depositor's Insurance Fund, and \$1,874,327 was collateralized.

### Investments

The District participates in the MMDT Cash Portfolio. Average maturities of the MMDT Cash Portfolio ranged from 34 to 80 days during fiscal year 2010. As of June 30, 2010, the District had a total of \$1,824,558 invested in MMDT.

### Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the District will not be able to recover the value of its investments or collateral security that are in possession of the outside party. The District does not have a formal policy for custodial credit risk for its investments. At June 30, 2010, the District does not have any custodial credit risk exposure for its investments since MMDT deposits are not subject to custodial credit risk because they are not evidenced by securities that exist in physical for book-entry form.

Interest Rate Risk - Investments

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.

The District participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months.

Credit Risk - Investments

The District has not adopted a formal policy related to credit risk. The District's investment in MMDT at June 30, 2010 is unrated.

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

**Governmental Activities**

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,370,581	\$ -	\$ -	\$ 1,370,581
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	69,779,114	-	-	69,779,114
Vehicles and heavy equipment.....	298,981	34,639	-	333,620
Books, equipment and computers.....	7,479,855	-	-	7,479,855
Total capital assets being depreciated.....	<u>77,557,950</u>	<u>34,639</u>	<u>-</u>	<u>77,592,589</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(7,853,056)	(1,805,691)	-	(9,658,747)
Vehicles and heavy equipment.....	(199,993)	(21,105)	-	(221,098)
Books, equipment and computers.....	(6,758,700)	(628,696)	-	(7,387,396)
Total accumulated depreciation.....	<u>(14,811,749)</u>	<u>(2,455,492)</u>	<u>-</u>	<u>(17,267,241)</u>
Total capital assets being depreciated, net.....	<u>62,746,201</u>	<u>(2,420,853)</u>	<u>-</u>	<u>60,325,348</u>
Total governmental activities capital assets, net.....	<u>\$ 64,116,782</u>	<u>\$ (2,420,853)</u>	<u>\$ -</u>	<u>\$ 61,695,929</u>

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

Instruction.....	\$	628,696
Facilities.....		<u>1,826,796</u>
Total depreciation expense....	\$	<u><u>2,455,492</u></u>

**NOTE 4 – SHORT-TERM FINANCING**

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

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

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

As of June 30, 2010 the District did not have any short-term debt outstanding

**NOTE 5 - LONG-TERM DEBT**

*General Long-Term Debt:*

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

Details related to the outstanding indebtedness at June 30, 2010, and the debt service requirements are as follows:

Purpose	Interest Rate (%)	Outstanding at June 30, 2009	Issued	Redeemed	Outstanding at June 30, 2010
School Building Project.....	2.25%	\$ 7,000,000	\$ -	\$ (1,400,000)	\$ 5,600,000
School Building Project.....	3.89%	9,350,000	-	(550,000)	8,800,000
School Building Project.....	3.85%	<u>800,000</u>	<u>-</u>	<u>(200,000)</u>	<u>600,000</u>
		<u>\$ 17,150,000</u>	<u>\$ -</u>	<u>\$ (2,150,000)</u>	<u>\$ 15,000,000</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011.....	2,150,000	567,701	2,717,701
2012.....	2,150,000	489,951	2,639,951
2013.....	2,150,000	410,801	2,560,801
2014.....	1,950,000	333,613	2,283,613
2015.....	550,000	254,925	804,925
2016.....	550,000	231,550	781,550
2017.....	550,000	210,238	760,238
2018.....	550,000	188,926	738,926
2019.....	550,000	166,926	716,926
2020.....	550,000	144,926	694,926
2021.....	550,000	122,926	672,926
2022.....	550,000	100,926	650,926
2023.....	550,000	78,926	628,926
2024.....	550,000	56,651	606,651
2025.....	550,000	34,032	584,032
2026.....	550,000	11,344	561,344
Totals.....	<u>\$ 15,000,000</u>	<u>\$ 3,404,362</u>	<u>\$ 18,404,362</u>

The District is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2010, the District did not have any authorized and unissued debt.

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2010, the following changes occurred in long-term liabilities:

	<u>Balance June 30, 2009</u>	<u>Bonds and Notes Issued</u>	<u>Bonds and Notes Redeemed</u>	<u>Other Net Increase (Decrease)</u>	<u>Balance June 30, 2010</u>	<u>Current Portion</u>
Long-term bonds and notes.....	\$ 17,150,000	\$ -	\$ (2,150,000)	\$ -	\$ 15,000,000	\$ 2,150,000
Other postemployment benefits.....	741,423	-	-	-	741,423	-
Total.....	<u>\$ 17,891,423</u>	<u>\$ -</u>	<u>\$ (2,150,000)</u>	<u>\$ -</u>	<u>\$ 15,741,423</u>	<u>2,150,000</u>

**NOTE 6 – RISK FINANCING**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District participates in both premium-based health care plans and self-funded plans for its active employees and a portion of its retirees'. Workers' compensation is insured through the Massachusetts Interlocal Insurance Association. These activities are accounted for in the general fund where revenues are recorded when earned and expenses are recorded when the liability is incurred. As of June 30, 2010, there were no employees out on workers' compensation and the liability for incurred but not reported health claims is immaterial and therefore not reported.

**NOTE 7 - PENSION PLAN**

*Plan Description* - School teachers and certain administrators are members of the Commonwealth of Massachusetts' Teachers Retirement System, to which the District does not contribute. All pension benefits and expenses paid by the Teachers Retirement System are funded by the Commonwealth of Massachusetts (Commonwealth). The amount of these on-behalf payments totaled approximately \$2,839,000 for the fiscal year ended June 30, 2010 and, accordingly, are reported in the General Fund as Intergovernmental Revenues and Employee Benefits Expenditures.

For non-teaching employees the District contributes to the Middlesex Retirement System (System), a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex Retirement Board.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth. Cost-of-living adjustments granted after 1997 must be approved by the System and are borne by the System. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 25 Linnell Circle, Billerica, MA 01821.

*Funding Policy* - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The District is required to pay into the System its share of the system wide actuarial determined contribution that is apportioned among the employers based on active current payroll. The contributions of plan members and the District are governed by Chapter 32 of the MGL. The District's contributions to the System for the fiscal years ended June 30, 2010, 2009, and 2008 were \$379,075, \$359,210, and \$319,454 respectively, which equaled its required contribution for each fiscal year.

**NOTE 8 - COMMITMENTS**

The District appropriates annually those amounts necessary for transportation of its students. For the fiscal year ended June 30, 2010, regular day and special education transportation expenditures totaled approximately \$415,341 and \$523,947, respectively.

**NOTE 9 - CONTINGENCIES**

The District participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2010, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2010, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2010.

**NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

*Plan Description* – The District administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance and life insurance benefits for eligible retirees and their spouses through the District’s group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the District and the unions representing District employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

*Funding Policy* – Contribution requirements are also negotiated between the District and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The District contributes 75 to 90 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 10 to 25 percent of their premium costs. For fiscal year 2010, a total of \$1.1 million was contributed to the plan.

*Annual OPEB Cost and Net OPEB Obligation* – The District’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$	1,825,052
Interest on net OPEB obligation.....		33,364
Adjustment to annual required contribution.....		<u>(45,517)</u>
Annual OPEB cost (expense).....		1,812,899
Contributions made.....		<u>(1,120,215)</u>
Increase in net OPEB obligation.....		692,684
Net OPEB obligation--beginning of year.....		<u>741,423</u>
Net OPEB obligation.....	\$	<u><u>1,434,107</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2010	\$ 1,812,899	62%	\$ 692,684

*Funded Status and Funding Progress* – As of June 30, 2010, the actuarial accrued liability for benefits was \$30.6 million, all of which was unfunded.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions* – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

#### **NOTE 11 - GROUP HEALTH INSURANCE**

The District offers its employees group health plans through the multi-town Minuteman-Nashoba Health Group (MNHG), a municipal health insurance purchase group established in December 1990. Fiscal operations for the group are handled by the Town of Concord Treasurer's office.

The primary health care networks offered are the Harvard Pilgrim Health Plan (HP), the Tufts Total Health Plan, and the Fallon Health Plan. These plans, the Group's plans for supplemental Medicare coverage for retirees (administered by Tufts), and an out-of-area plan administered by Harvard Pilgrim are self-funded. The MNHG group establishes the prices for the various plans annually based on actual claims experience and the protection of a stop-loss reinsurance program. Additionally, Senior plans for medicare-eligible subscribers are offered on a premium basis through Harvard Pilgrim, Tufts and Fallon Health Plans.

#### **NOTE 12 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During fiscal year 2010, the following GASB pronouncements were implemented:

- The GASB issued Statement #57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. The standards in this statement permits an agent employer that has an individual employer OPEB plan with fewer than 100 members to use an alternative measurement method to produce actuarially based information for purposes of financial reporting, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Management elected to implement this standard early and this standard did not impact the basic financial statements.
- The GASB issued Statement #58, Accounting and Financial Reporting for Chapter 9 Bankruptcies. The standards in this statement provide guidance for bankrupt state and local governments by establishing requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities and for classifying changes in those items and related costs. Management elected to implement this standard early and this standard did not impact the basic financial statements.

Future Implementation of GASB Pronouncements:

- The GASB issued Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is required to be implemented in fiscal year 2011. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

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# ***Required Supplementary Information***

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

FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Budgetary Amounts	Variance to Final Budget
	Original Budget	Final Budget		
<b>REVENUES:</b>				
Member town assessments.....	\$ 22,613,972	\$ 22,613,972	\$ 22,613,972	\$ -
Intergovernmental.....	2,853,629	2,853,629	2,718,689	(134,940)
Miscellaneous.....	-	-	125,712	125,712
Investment income.....	-	-	12,058	12,058
<b>TOTAL REVENUES.....</b>	<b>25,467,601</b>	<b>25,467,601</b>	<b>25,470,431</b>	<b>2,830</b>
<b>EXPENDITURES:</b>				
Current:				
Administration .....	872,837	872,837	738,784	134,053
Instruction.....	13,854,176	13,854,176	13,720,502	133,674
Health services.....	86,871	86,871	104,238	(17,367)
Transportation.....	1,007,877	1,007,877	957,358	50,519
Athletics.....	423,630	423,630	417,055	6,575
Other student activities.....	71,662	71,662	72,068	(406)
Facilities.....	1,815,324	1,815,324	1,758,456	56,868
Retirement.....	692,245	692,245	704,956	(12,711)
Insurance.....	2,772,162	2,772,162	2,670,764	101,398
Tuition.....	1,988,197	1,988,197	1,997,099	(8,902)
Equipment.....	73,880	73,880	237,306	(163,426)
Debt service:				
Maturing debt.....	2,150,000	2,150,000	2,150,000	-
Interest.....	645,700	645,700	645,700	-
<b>TOTAL EXPENDITURES.....</b>	<b>26,458,395</b>	<b>26,458,395</b>	<b>26,174,286</b>	<b>284,109</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(990,794)</b>	<b>(990,794)</b>	<b>(703,855)</b>	<b>286,939</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in.....	61,000	61,000	61,000	-
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(929,794)</b>	<b>(929,794)</b>	<b>(642,855)</b>	<b>\$ 286,939</b>
<b>BUDGETARY FUND BALANCE,</b>				
Beginning of year.....	2,487,562	2,487,562	2,487,562	
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 1,557,768</b>	<b>\$ 1,557,768</b>	<b>\$ 1,844,707</b>	

See notes to basic financial statements.

**Middlesex Contributory Retirement System  
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/08	774,863,699	1,529,806,307	754,942,608	50.7%	346,804,796	217.7%
01/01/06	653,156,866	1,364,582,969	711,426,103	47.9%	330,999,861	214.9%
01/01/04	618,163,380	1,223,828,127	605,664,747	50.5%	306,025,949	197.9%
01/01/02	599,699,143	1,020,828,178	421,129,035	58.7%	280,740,439	150.0%
01/01/00	570,263,467	905,280,472	335,017,005	63.0%	253,228,818	132.3%
01/01/98	476,708,969	763,093,878	286,384,909	62.5%	215,380,186	133.0%
01/01/96	\$ 373,750,361	\$ 634,920,488	\$ 261,170,127	58.9%	\$ 218,345,024	119.6%

See notes to required supplementary information.

**Middlesex Contributory Retirement System  
Schedule of Employer Contributions**

Plan Year Ended December 31	System Wide			Lincoln-Sudbury Regional School District	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) District's Percentage of System Wide Actual Contributions
2008	71,923,886	71,923,886	100%	319,454	0.44%
2007	64,592,499	64,592,499	100%	276,855	0.43%
2006	60,169,717	60,169,717	100%	243,274	0.40%
2004	52,902,366	52,902,366	100%	211,949	0.40%
2003	35,411,500	35,411,500	100%	227,731	0.64%
2005	52,298,150	52,298,150	100%	223,299	0.43%

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

See notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFIT PLAN  
SCHEDULE OF FUNDING PROGRESS**

JUNE 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
6/30/2007	\$ -	\$ 30,629,512	\$ 30,629,512	0%	\$ N/A	N/A

The District implemented GASB Statement No. 45 for the fiscal year ended June 30, 2009.  
Information for prior years is not available.

See notes to required supplementary information.

**OTHER POSTEMPLOYMENT BENEFIT PLAN**  
**ACTUARIAL METHODS AND ASSUMPTIONS**

FISCAL YEAR ENDED JUNE 30, 2010

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Actuarial Methods:

Valuation date.....	June 30, 2009
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Payments increasing at 4.5%
Remaining amortization period.....	30 years as of July 1, 2007

Actuarial Assumptions:

Investment rate of return.....	5.0%, pay-as-you-go scenario
Inflation rate.....	4.5%
Medical/drug cost trend rate.....	10.0% grading down to 5.0% over 5 years

Plan Membership:

Current retirees, beneficiaries, and dependents.....	134
Current active members.....	<u>184</u>
Total.....	<u><u>318</u></u>

See notes to required supplementary information.

**NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**A. Budgetary Information

The District adopts a balanced budget that is approved by the Committee. The Superintendent of Schools presents an annual budget to the Committee, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Committee, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote. Increases in the budget subsequent to the approval of the annual budget require majority Committee approval.

The majority of the District's appropriations are non-continuing which lapse at the end of the fiscal year.

The District adopts an annual budget for the General Fund in conformity with the guidelines described above. The original fiscal year 2010 approved budget for the General Fund authorized \$26.5 million in appropriations.

The District's accounting office has the responsibility to ensure that budgetary control is maintained on a bottom line, total budget basis. Budgetary control is exercised through the District's accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2010, is presented below:

Net change in fund balance, budgetary basis.....	\$	(642,855)
<u>Basis of accounting differences:</u>		
Recognition of revenue for on-behalf payments.....		2,510,000
Recognition of expenditures for on-behalf payments.....		(2,510,000)
Net change in search for unrecorded liabilities.....		<u>169,287</u>
Net change in fund balance, GAAP basis.....	\$	<u><u>(473,568)</u></u>

**NOTE B – PENSION PLAN**

The District contributes to the Middlesex County Contributory Retirement System ("Retirement System"), a cost-sharing, multiple-employer defined benefit pension plan ("Plan") administered by the Middlesex County Retirement Board. The Retirement System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. Plan members are required to contribute to the Retirement System at rates ranging from 5% to 11% of annual covered compensation. The District is required to pay into the Retirement System its share of the system-wide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information, following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information, following the notes to the basic financial statements, presents multiyear trend information for required and actual contributions relating to

the cost-sharing plan as a whole, of which the District is one participating employer, as well as the District's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the District.

The following actuarial methods and assumptions were used in the Retirement System's most recent actuarial valuation:

Valuation Date.....	January 1, 2008
Actuarial Cost Method.....	Entry Age Normal Cost Method
Amortization Method.....	Level dollar for the 1992, 2002 and 2003 ERIs and 4.50% increasing for the remaining unfunded liability
Remaining Amortization Period.....	As of July 1, 2008, 2 years remaining for 1992 ERI liability; 11 years remaining for 2002 and 12 years remaining for 2003 and 20 years remaining for unfunded liability
Asset Valuation Method.....	The difference between the expected return and the actual investment return on a market value basis is recognized over a 5 year period as described by Revenue Procedure 2000-40

Actuarial Assumptions:

Investment rate of return.....	8.25%
Projected salary increases.....	4.00% for the next 2 years
Cost of living adjustments.....	3.00% on first \$12,000

Plan Membership:

Retired participants and beneficiaries receiving benefits.....	4,764
Inactive participants entitled to a return of their employee contributions.....	3,077
Inactive participants with a vested right to a deferred or immediate benefit.....	190
Active participants.....	<u>9,285</u>
Total.....	<u><u>17,316</u></u>

**NOTE C - OTHER POSTEMPLOYMENT BENEFITS**

The District administers a single-employer defined benefit healthcare plan ("The Retiree Health Plan"). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the District's group health insurance plan, which covers both active and retired members

The District currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the District has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets. Since this is the District's initial year of implementation of GASB Statement 45, information for prior years is not available.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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