

LINCOLN-SUDBURY REGIONAL SCHOOL DISTRICT

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

FISCAL YEAR ENDED JUNE 30, 2012

LINCOLN-SUDBURY REGIONAL SCHOOL DISTRICT

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

TABLE OF CONTENTS

Independent Auditors' Report.....	1
Management's Discussion and Analysis	2
Basic Financial Statements	10
Statement of Net Assets.....	11
Statement of Activities.....	12
Governmental funds – balance sheet.....	14
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets.....	15
Governmental funds – statement of revenues, expenditures and changes in fund balances	16
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities.....	17
Fiduciary funds – statement of fiduciary net assets	18
Notes to basic financial statements.....	19
Required Supplementary Information.....	36
Schedule of revenues, expenditures and changes in fund balance – general fund – budget and actual.....	37
Retirement system schedule of funding progress	38
Retirement system schedule for employer contributions.....	39
Other Postemployment Benefit Plan Schedule of Funding Progress and Employer Contributions	40
Other Postemployment Benefit Plan Actuarial Methods and Assumptions.....	41
Notes to Required Supplementary Information	42



100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
www.powersandsullivan.com

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, 2012, 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, 2012, 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 February 21, 2013, 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.

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

A handwritten signature in black ink that reads "Powers & Sullivan, LLC".

February 21, 2013

Management's Discussion and Analysis

Management's Discussion and Analysis

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, 2012, with comparisons to FY '11 and, in some cases, FY '10. 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, 2012, and the prior year ending June 30, 2011, is required in the MD&A and included herein. We have also included some comparisons to fiscal year ending June 30, 2010. 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 two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund 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 District'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 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.

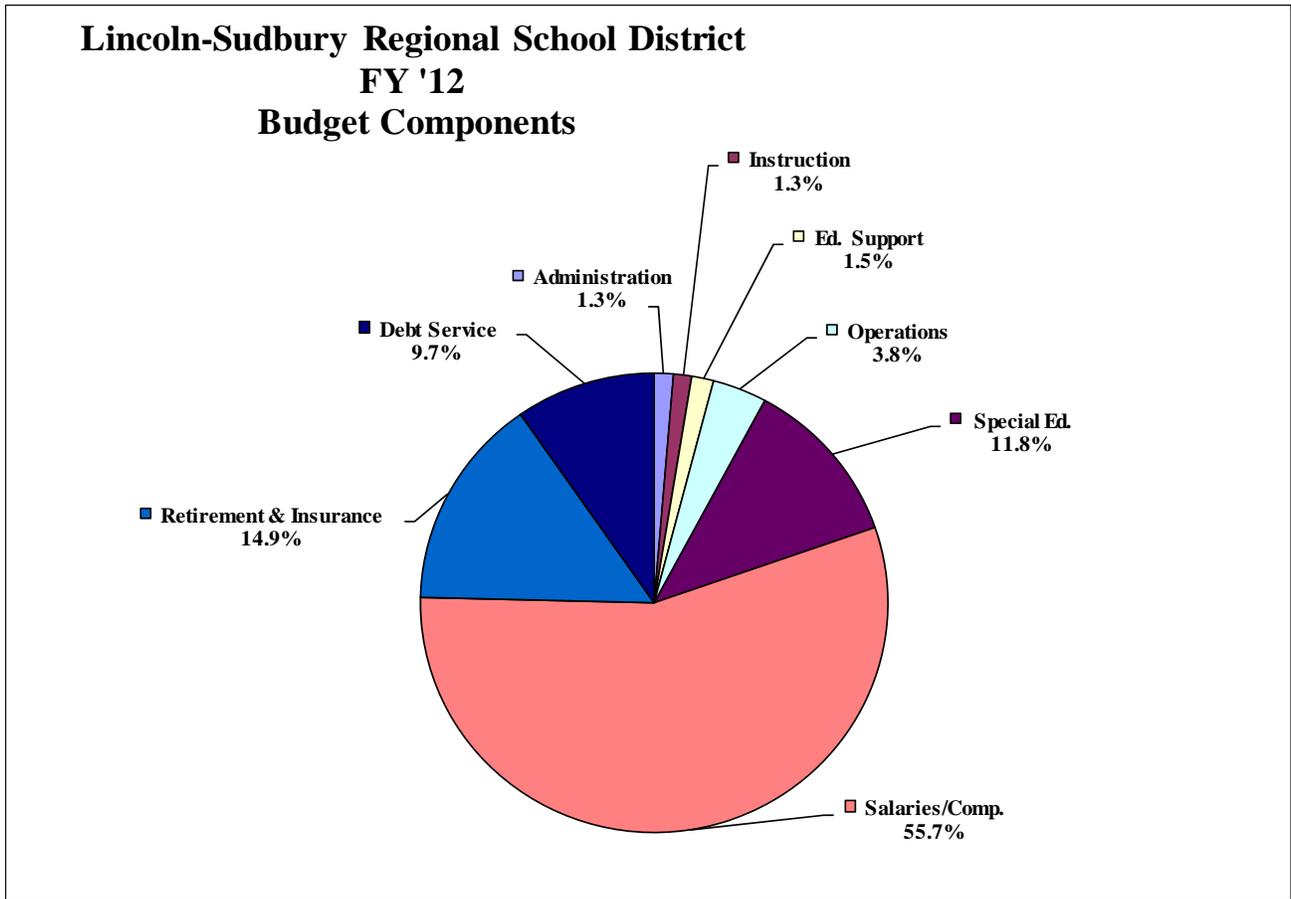
Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District's budgetary basis of accounting

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 Retirement, Insurance and Debt Service, amount to 24.6% of the total FY '12 Budget of \$27.3 million and 23.7% of total expenditures, an increase of \$199 thousand over FY '11. The increase primarily relates to step increases, negotiated cost of living adjustments for teachers, and insurance costs.

The following chart shows the Budget Components for FY '12 Budget.



Chapter 70 State Aid and Regional Transportation Aid offset the annual budget. Other offsets to the budget include estimated receipts (athletic and activity user fees, income from the school lunch program, Medicaid funds, Building Use funds, parking 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 '12 Budget Ratios:</u>	<u>FY '11 Budget Ratios:</u>	<u>FY '10 Budget Ratios:</u>
Lincoln:	15.12%	15.64%	15.49%
Sudbury:	84.88%	84.36%	84.51%

Net assets of \$47.3 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 \$3.0 million in fiscal year 2012. The decrease was primarily attributable to the \$3.3 million increase in the liability for other postemployment benefits. This was offset by debt principal payments on long-term debt exceeding depreciation expense by \$300 thousand.

Financial Analysis of the Governmental Funds

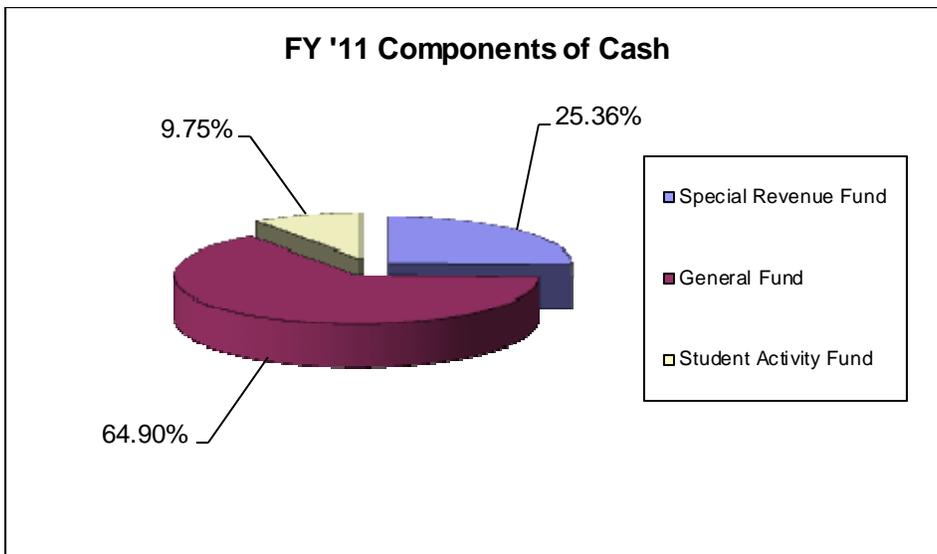
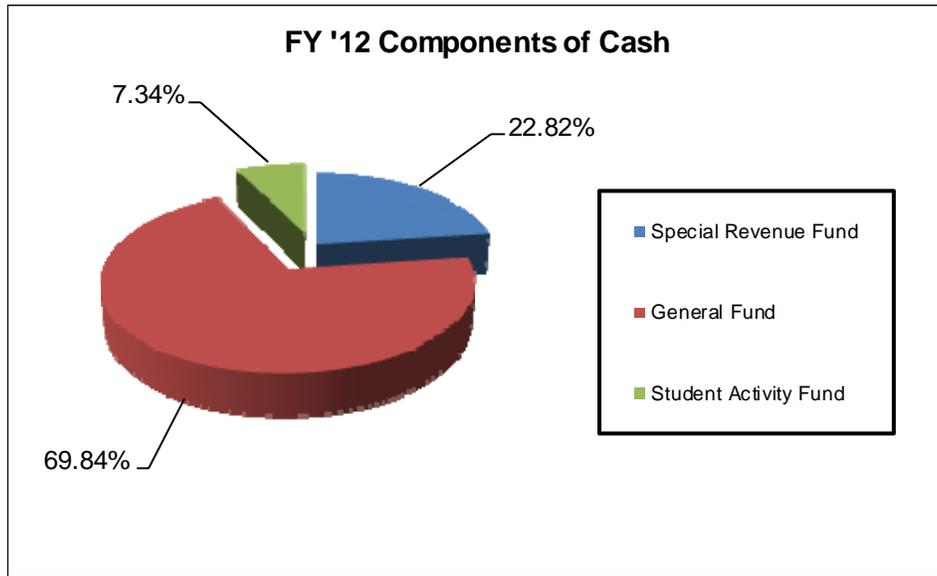
As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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, *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 June 30, 2012, the District’s cash and short-term investment position was \$3.4 million which includes the following fund types:

GOVERNMENTAL FUND TYPES:	FY '12	FY '11	FY '10
General Fund.....	\$ 2,372,350	\$ 2,459,069	\$ 2,669,199
Special Revenue Fund.....	775,100	960,933	988,514
 FIDUCIARY FUND TYPES:			
Medical Claims Trust Fund.....	\$ -	\$ -	\$ 225,771
Agency Fund.....	249,333	369,274	341,627

This is a decrease of \$392,000 from the prior year's cash position.



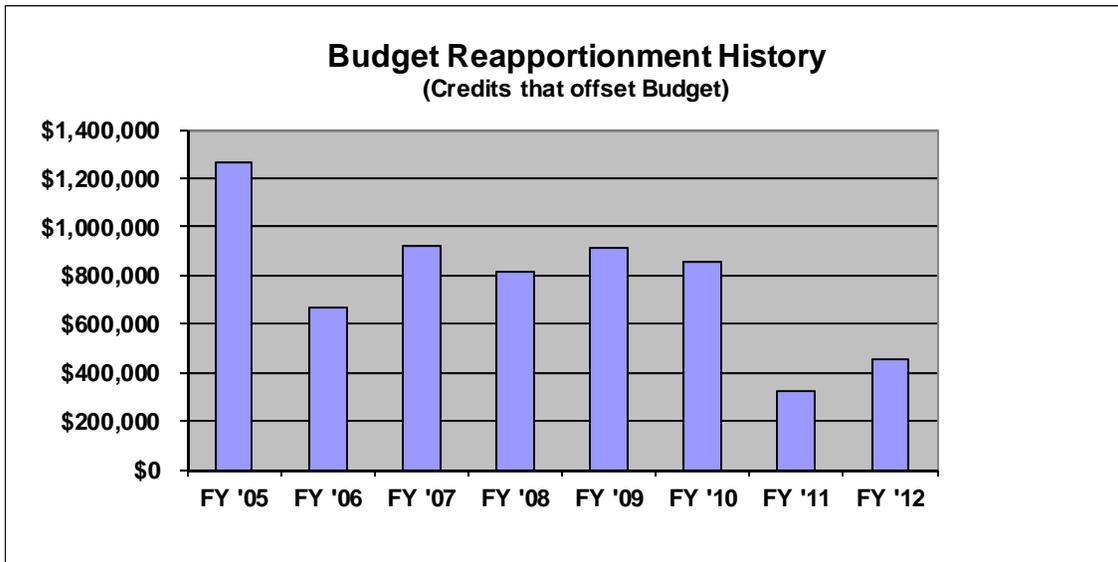
As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$2.9 million, a decrease of \$16 thousand in comparison with the prior year. The decrease is primarily attributable to a planned use of reserves.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,655,528 while total fund balance was \$1,968,176. Restrictions for debt service totaled \$25,162 and assignments of fund balance totaled \$35,611 for encumbrances and \$251,875 for the amount used to balance the fiscal 2013 budget. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total budgetary expenditures. Unassigned fund balance represents 6.1% of total general fund budgetary expenditures, while total fund balance represents 7.3% of that same amount.

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. 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 following is a breakout of the reapportionments earned in FY '11, FY '10 and FY '09 which offset the FY '13, FY '12, and FY '11 budgets, respectively:

	<u>FY '11</u>	<u>FY '10</u>	<u>FY '09</u>
Operating & Debt Service Surplus.....\$	205,815	\$ 284,108	\$ 188,697
Investment Income, receipts and voids.....	48,461	117,229	98,623
State Aid (over/(under) estimate).....	(2,401)	48,825	23,832
Previous Year's Encumbrance.....	-	5,654	14,420
 Total Reapportionment..... \$	 <u>251,875</u>	 <u>\$ 455,816</u>	 <u>\$ 325,572</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 totaled \$1,038,801 as of June 30, 2012.

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 by vote of two-thirds of all the members of the school committee. At June 30, 2012, the fund balance equaled \$310,274, which is reported in the General Fund as unassigned fund balance.

Capital Assets and Debt Administration

The School District purchased a new van for the athletic department in fiscal year 2012. This was the only capital purchase during the fiscal year.

The District's long-term bonds outstanding totaled \$10.7 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. The 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. Analysts 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 Business Administrator, Lincoln-Sudbury Regional School District, 390 Lincoln Road, Sudbury, MA 01776.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Governmental Activities
ASSETS	
CURRENT:	
Cash and cash equivalents.....	\$ 3,147,450
Receivables, net of allowance for uncollectibles:	
Intergovernmental.....	194,088
NONCURRENT:	
Capital assets - nondepreciable.....	1,370,581
Capital assets, net of accumulated depreciation.....	56,633,640
TOTAL ASSETS.....	61,345,759
LIABILITIES	
CURRENT:	
Warrants payable.....	252,022
Accrued liabilities.....	201,898
Accrued interest.....	121,836
Other liabilities.....	4,175
Bonds payable.....	2,150,000
NONCURRENT:	
Other postemployment benefits.....	5,842,679
Bonds payable.....	8,550,000
TOTAL LIABILITIES.....	17,122,610
NET ASSETS	
Invested in capital assets, net of related debt.....	47,304,221
Restricted for:	
Gifts and grants.....	44,056
Unrestricted.....	(3,125,128)
TOTAL NET ASSETS.....	\$ 44,223,149

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
<i>Governmental Activities:</i>				
Administration	\$ 651,714	\$ -	\$ 7,032	\$ (644,682)
Instruction.....	15,086,242	-	1,166,884	(13,919,358)
Health services.....	94,050	-	-	(94,050)
Transportation.....	1,131,164	-	-	(1,131,164)
Athletics.....	212,029	-	-	(212,029)
Other student activities.....	50,400	-	-	(50,400)
Facilities.....	3,419,867	-	-	(3,419,867)
Retirement.....	3,738,287	-	-	(3,738,287)
Insurance.....	3,098,290	-	-	(3,098,290)
Tuition.....	2,964,228	-	-	(2,964,228)
Federal and state grants.....	832,859	-	871,018	38,159
Extended day.....	34,617	60,634	-	26,017
Athletic revolving.....	648,205	597,602	-	(50,603)
Cafeteria.....	559,261	593,824	-	34,563
Other special revenue.....	515,180	171,310	363,858	19,988
Building and equipment.....	152,578	-	9,565	(143,013)
Interest.....	461,883	-	-	(461,883)
Other postemployment benefits.....	3,321,060	-	-	(3,321,060)
Total Governmental Activities.....	\$ 36,971,914	\$ 1,423,370	\$ 2,418,357	\$ (33,130,187)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government
	Governmental Activities
Changes in net assets:	
Net (expense) revenue from previous page.....	\$ (33,130,187)
<i>General revenues:</i>	
Member town assessments.....	23,882,374
Intergovernmental.....	5,844,345
Unrestricted investment income.....	1,060
Miscellaneous.....	413,784
Total general revenues and transfers.....	<u>30,141,563</u>
Change in net assets.....	(2,988,624)
<i>Net Assets:</i>	
Beginning of year.....	<u>47,211,773</u>
End of year.....	\$ <u><u>44,223,149</u></u>

(Concluded)

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2012

ASSETS	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 2,372,350	\$ 775,100	\$ 3,147,450
Receivables, net of uncollectibles:			
Intergovernmental.....	<u>-</u>	<u>194,088</u>	<u>194,088</u>
TOTAL ASSETS.....	<u>\$ 2,372,350</u>	<u>\$ 969,188</u>	<u>\$ 3,341,538</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 198,101	\$ 53,921	\$ 252,022
Accrued liabilities.....	201,898	-	201,898
Other liabilities.....	<u>4,175</u>	<u>-</u>	<u>4,175</u>
TOTAL LIABILITIES.....	<u>404,174</u>	<u>53,921</u>	<u>458,095</u>
 FUND BALANCES:			
Restricted.....	25,162	915,267	940,429
Assigned.....	287,486	-	287,486
Unassigned.....	<u>1,655,528</u>	<u>-</u>	<u>1,655,528</u>
TOTAL FUND BALANCES.....	<u>1,968,176</u>	<u>915,267</u>	<u>2,883,443</u>
TOTAL LIABILITIES AND FUND BALANCES.....	<u>\$ 2,372,350</u>	<u>\$ 969,188</u>	<u>\$ 3,341,538</u>

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, 2012

Total governmental fund balances.....		\$	2,883,443
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....			58,004,221
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....			(121,836)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds			
Bonds payable.....	(10,700,000)		
Other postemployment benefits.....	<u>(5,842,679)</u>		
Net effect of reporting long-term liabilities.....			<u>(16,542,679)</u>
Net assets of governmental activities.....		\$	<u><u>44,223,149</u></u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2012

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Member town assessments.....	\$ 23,882,374	\$ -	\$ 23,882,374
Intergovernmental.....	5,844,345	2,055,884	7,900,229
Departmental and other.....	413,784	1,785,843	2,199,627
Investment income.....	1,060	-	1,060
TOTAL REVENUES.....	30,141,563	3,841,727	33,983,290
EXPENDITURES:			
Current:			
Administration	651,714	-	651,714
Instruction.....	13,727,615	1,336,116	15,063,731
Health services.....	94,050	-	94,050
Transportation.....	1,170,563	-	1,170,563
Athletics.....	212,029	-	212,029
Other student activities.....	50,400	-	50,400
Facilities.....	1,573,034	-	1,573,034
Retirement.....	3,738,287	-	3,738,287
Insurance.....	3,098,290	-	3,098,290
Tuition.....	2,964,228	-	2,964,228
Federal and state grants.....	-	832,859	832,859
Extended day.....	-	34,617	34,617
Athletic revolving.....	-	648,205	648,205
Cafeteria.....	-	559,261	559,261
Other special revenue.....	-	515,180	515,180
Building and equipment.....	132,624	19,954	152,578
Debt service:			
Maturing debt.....	2,150,000	-	2,150,000
Interest.....	489,950	-	489,950
TOTAL EXPENDITURES.....	30,052,784	3,946,192	33,998,976
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	88,779	(104,465)	(15,686)
OTHER FINANCING SOURCES (USES):			
Transfers in.....	50,000	-	50,000
Transfers out.....	-	(50,000)	(50,000)
TOTAL OTHER FINANCING SOURCES (USES).....	50,000	(50,000)	-
NET CHANGE IN FUND BALANCES.....	138,779	(154,465)	(15,686)
FUND BALANCES AT BEGINNING OF YEAR.....	1,829,397	1,069,732	2,899,129
FUND BALANCES AT END OF YEAR.....	\$ 1,968,176	\$ 915,267	\$ 2,883,443

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, 2012

Net change in fund balances - total governmental funds..... \$ (15,686)

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.....	39,399	
Depreciation expense.....	<u>(1,869,344)</u>	
Net effect of reporting capital assets.....		(1,829,945)

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
--------------------------------------	--	-----------

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.....	28,067	
Net change in other postemployment benefits.....	<u>(3,321,060)</u>	
Net effect of recording long-term liabilities and amortizing bond premiums.....		<u>(3,292,993)</u>

Change in net assets of governmental activities.....		\$ <u>(2,988,624)</u>
--	--	-----------------------

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	<u>Agency Funds</u>
ASSETS	
CURRENT:	
Cash and cash equivalents.....	\$ <u>249,333</u>
LIABILITIES	
Liabilities due depositors.....	\$ <u><u>249,333</u></u>

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

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

The 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, buildings and improvements, vehicles, equipment, books, and computers, 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 and improvements.....	40
Machinery and equipment.....	10
Vehicles.....	5
Books and computers.....	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.

Government-Wide Financial Statements

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

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

Government-Wide Financial Statements (Net Assets)

Net assets reported as "invested in capital assets, net of related debt" include capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets. Outstanding debt related to future reimbursements from the state's school building program is not considered to be capital related debt.

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)

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

The governmental fund balance classifications are as follows:

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

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority.

“Assigned” fund balance includes amounts that are constrained by the District’s intent to be used for specific purposes, but are neither restricted nor committed.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District’s spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

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

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk - Deposits

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 \$2,539,076 and the bank balance totaled \$3,355,679. Of the bank balance, \$1,250,000 was covered by Federal Depository Insurance, \$228,501 was covered by the Depositor's Insurance Fund, \$1,009,367 was collateralized and \$867,811 was uninsured and uncollateralized.

Investments

The District participates in the MMDT Cash Portfolio. As of June 30, 2012, the District had a total of \$857,707 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, 2012, 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 or 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. For fiscal 2012 the actual average maturities of the MMDT Cash Portfolio ranged from 31 to 54 days.

Credit Risk - Investments

The District has not adopted a formal policy related to credit risk. The District's investment in MMDT at June 30, 2012 is unrated.

NOTE 3 – RECEIVABLES

At June 30, 2012, receivables for the individual major governmental funds and non-major governmental funds including the applicable allowances for uncollectible accounts are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Intergovernmental.....	\$ 194,088	\$ -	\$ 194,088

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	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.....	374,096	39,399	-	413,495
Books, equipment and computers.....	7,479,855	-	-	7,479,855
Total capital assets being depreciated.....	77,633,065	39,399	-	77,672,464
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(11,464,438)	(1,805,691)	-	(13,270,129)
Vehicles and heavy equipment.....	(247,698)	(41,142)	-	(288,840)
Books, equipment and computers.....	(7,457,344)	(22,511)	-	(7,479,855)
Total accumulated depreciation.....	(19,169,480)	(1,869,344)	-	(21,038,824)
Total capital assets being depreciated, net.....	58,463,585	(1,829,945)	-	56,633,640
Total governmental activities capital assets, net.....	\$ 59,834,166	\$ (1,829,945)	\$ -	\$ 58,004,221

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

Instruction.....	\$ 22,511
Facilities.....	1,846,833
Total depreciation expense.....	\$ 1,869,344

NOTE 5 – INTERFUND TRANSFERS

The District transferred \$50,000 from the Nonmajor Funds to the General Fund during fiscal year 2012. This transfer represents a budgeted amount to supplement the fiscal year 2012 operating budget.

NOTE 6 – SHORT-TERM FINANCING

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

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

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

As of June 30, 2012 the District did not have any short-term debt outstanding

NOTE 7 - LONG-TERM DEBT

General Long-Term Debt:

State law permits the District, under the provisions of Chapter 71, Section 16, to authorize indebtedness not to exceed an amount approved by the 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, 2012, and the debt service requirements are as follows:

Purpose	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
School Building Project.....	2014	14,000,000	2.25%	\$ 4,200,000	\$ -	\$ (1,400,000)	\$ 2,800,000
School Building Project.....	2026	11,000,000	3.89%	8,250,000	-	(550,000)	7,700,000
School Building Project.....	2013	1,000,000	3.85%	400,000	-	(200,000)	200,000
				<u>\$ 12,850,000</u>	<u>\$ -</u>	<u>\$ (2,150,000)</u>	<u>\$ 10,700,000</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>
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.....	<u>550,000</u>	<u>11,344</u>	<u>561,344</u>
Totals.....	\$ <u>10,700,000</u>	\$ <u>2,346,710</u>	\$ <u>13,046,710</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, 2012, the District did not have any authorized and unissued debt.

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2012, the following changes occurred in long-term liabilities:

	<u>Balance June 30, 2011</u>	<u>Bonds and Notes Issued</u>	<u>Bonds and Notes Redeemed</u>	<u>Other Net Increase (Decrease)</u>	<u>Balance June 30, 2012</u>	<u>Current Portion</u>
Long-term bonds and notes.....	\$ 12,850,000	\$ -	\$ (2,150,000)	\$ -	\$ 10,700,000	\$ 2,150,000
Other postemployment benefits.....	<u>2,521,619</u>	<u>-</u>	<u>-</u>	<u>3,321,060</u>	<u>5,842,679</u>	<u>-</u>
Total.....	\$ <u>15,371,619</u>	\$ <u>-</u>	\$ <u>(2,150,000)</u>	\$ <u>3,321,060</u>	\$ <u>16,542,679</u>	\$ <u>2,150,000</u>

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

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

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any changes to the purpose of the fund along with any additions to or appropriations from the fund required a two-thirds vote of the legislative body. At fiscal year end the balance of the General Stabilization fund is \$310,274 and is reported as unassigned fund balance in the General Fund.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The District has no nonspendable funds.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose

The District’s spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

The District has classified its fund balances with the following hierarchy:

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
FUND BALANCES			
Restricted for:			
Federal and State Grants..... \$	-	\$ 44,056	\$ 44,056
Other Special Revenue Funds.....	-	488,279	719,641
Athletic Revolving Fund.....	-	231,362	231,362
School Lunch Revolving Fund.....	-	151,570	151,570
Debt service.....	25,162	-	25,162
Assigned to:			
Administration	3,156	-	3,156
Instruction.....	29,996	-	29,996
Tuition.....	2,423	-	2,423
Equipment.....	36	-	36
Subsequent years appropriations.....	251,875	-	251,875
Unassigned.....	<u>1,655,528</u>	-	<u>1,655,528</u>
TOTAL FUND BALANCES..... \$	<u>1,968,176</u>	<u>\$ 915,267</u>	<u>\$ 3,114,805</u>

NOTE 9 – RISK FINANCING

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The 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, 2012, there were no employees receiving workers' compensation benefits and the liability for incurred but-not-reported health claims is immaterial and therefore not reported.

NOTE 10 - 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 \$3,075,000 for the fiscal year ended June 30, 2012 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 County Retirement System (System), a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex County 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, 2012, 2011, and 2010 were \$427,252, \$396,133, and \$379,075 respectively, which equaled its required contribution for each fiscal year.

NOTE 11 - COMMITMENTS

The District appropriates annually those amounts necessary for transportation of its students. For the fiscal year ended June 30, 2012, regular day and special education transportation expenditures totaled approximately \$448,000 and \$683,000, respectively.

NOTE 12 - CONTINGENCIES

The District participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2012, 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, 2012, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2012.

NOTE 13 – 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 70 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 30 percent of their premium costs. For fiscal year 2012, 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.....	\$	4,457,705
Interest on net OPEB obligation.....		126,081
Adjustment to annual required contribution.....		<u>(164,061)</u>
Annual OPEB cost (expense).....		4,419,725
Contributions made.....		<u>(1,098,665)</u>
Increase in net OPEB obligation.....		3,321,060
Net OPEB obligation-beginning of year.....		<u>2,521,619</u>
Net OPEB obligation.....	\$	<u><u>5,842,679</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three fiscal years is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 4,419,725	25%	\$ 5,842,679
6/30/2011	2,182,794	50%	2,521,619
6/30/2010	1,812,899	62%	1,434,107

Funded Status and Funding Progress – As of June 30, 2012, the actuarial accrued liability for benefits was \$46.1 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 and employer contributions, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the July 1, 2011 actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 3.5% investment return assumption, which is based on the expected yield on the assets of the District, calculated based on the funded level of the plan at the valuation date, and an annual health care trend rate of 9% initially, graded to 5% over 5 years. The UAAL is being amortized with a level dollar amount over a 30 year period on an open basis. The remaining amortization period at June 30, 2012 is 30 years.

NOTE 14 - 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 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2012, the following GASB pronouncements were implemented:

- GASB Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*. The implementation of this pronouncement did not impact the basic financial statements.
- The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented in fiscal year 2015.

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

This page intentionally left blank.

Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Amounts Carried forward From Prior Year	Original Budget	Final Budget			
REVENUES:						
Member town assessments.....	\$ -	\$ 23,882,374	\$ 23,882,374	\$ 23,882,374	\$ -	\$ -
Intergovernmental.....	-	2,748,157	2,748,157	2,769,345	-	21,188
Miscellaneous.....	-	-	-	413,784	-	413,784
Investment income.....	-	-	-	1,060	-	1,060
TOTAL REVENUES.....	-	26,630,531	26,630,531	27,066,563	-	436,032
EXPENDITURES:						
Current:						
Administration	20,601	649,974	649,974	651,714	3,156	(4,896)
Instruction.....	11,518	13,708,800	13,708,800	13,727,615	29,996	(48,811)
Health services.....	-	92,364	92,364	94,050	-	(1,686)
Transportation.....	-	1,010,729	1,050,128	1,170,563	-	(120,435)
Athletics.....	181	173,156	173,156	212,029	-	(38,873)
Other student activities.....	-	72,447	72,447	50,400	-	22,047
Facilities.....	5,633	1,679,135	1,679,135	1,573,034	-	106,101
Retirement.....	-	660,967	660,967	663,287	-	(2,320)
Insurance.....	-	3,415,139	3,415,139	3,098,290	-	316,849
Tuition.....	6,140	3,049,432	3,049,432	2,964,228	2,423	82,781
Equipment.....	1,647	86,193	86,193	132,624	36	(46,467)
Debt service:						
Maturing debt.....	-	2,150,000	2,150,000	2,150,000	-	-
Interest.....	-	489,950	489,950	489,950	-	-
TOTAL EXPENDITURES.....	45,720	27,238,286	27,277,685	26,977,784	35,611	264,290
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(45,720)	(607,755)	(647,154)	88,779	(35,611)	700,322
OTHER FINANCING SOURCES (USES):						
Transfers in.....	-	50,000	50,000	50,000	-	-
NET CHANGE IN FUND BALANCE.....	(45,720)	(557,755)	(597,154)	138,779	\$ (35,611)	\$ 700,322
BUDGETARY FUND BALANCE,						
Beginning of year.....	2,584,430	1,829,397	1,829,397	1,829,397		
BUDGETARY FUND BALANCE, End of year.....	\$ 2,538,710	\$ 1,271,642	\$ 1,232,243	\$ 1,968,176		

See notes to required supplementary information.

**MIDDLESEX COUNTY 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)
01/01/10	\$ 819,987,914	\$ 1,742,380,855	\$ 922,392,941	\$ 47.1%	\$ 384,598,692	239.8%
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 COUNTY 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
2011	\$ 78,100,351	\$ 78,100,351	100%	427,252	0.55%
2010	74,126,190	74,126,190	100%	396,133	0.53%
2009	71,233,749	71,233,749	100%	379,075	0.53%
2008	64,053,064	64,053,064	100%	359,210	0.56%
2007	57,553,642	57,553,642	100%	319,454	0.56%
2006	57,553,642	57,553,642	100%	276,855	0.48%
2005	52,298,150	52,298,150	100%	243,274	0.47%
2004	52,902,366	52,902,366	100%	243,274	0.46%

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 AND EMPLOYER CONTRIBUTIONS

JUNE 30, 2012

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
7/1/2011	\$ -	\$ 46,124,163	\$ 46,124,163	0%	\$ 15,479,452	298.0%
6/30/2009	-	29,430,886	29,430,886	0%	N/A	N/A
6/30/2007	-	30,629,512	30,629,512	0%	N/A	N/A

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2012	\$ 4,457,705	\$ -	0%
2011	2,141,133	1,095,282	51%
2010	1,825,052	1,120,215	61%
2009	1,750,190	1,008,767	58%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

FISCAL YEAR ENDED JUNE 30, 2012

Actuarial Methods:

Valuation date..... July 1, 2011
Actuarial cost method..... Projected Unit Credit
Amortization method..... Level dollar amount
Remaining amortization period..... 30 years open

Actuarial Assumptions:

Investment rate of return..... 3.5%, pay-as-you-go scenario
Inflation rate..... 4.5%
Medical/drug cost trend rate..... 9.0% decreasing by 1% for 5 years to an ultimate level of 5.0% per year.

Plan Membership:

Current retirees, beneficiaries, and dependents.....	151
Current active members.....	<u>157</u>
Total.....	<u><u>308</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 2012 approved budget for the General Fund authorized \$27.2 million in appropriations. During the fiscal year the District approved additional appropriations totaling \$39,000 for the purchase of a van.

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, 2012, is presented below:

Net change in fund balance, budgetary basis.....	\$ 138,779
<u>Basis of accounting differences:</u>	
Recognition of revenue for on-behalf payments.....	3,075,000
Recognition of expenditures for on-behalf payments.....	<u>(3,075,000)</u>
Net change in fund balance, GAAP basis.....	<u>\$ 138,779</u>

NOTE B – PENSION PLAN

The District contributes to the Middlesex County 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, 2010
Actuarial Cost Method.....	Entry Age Normal Cost Method
Amortization Method.....	Level dollar for the 2002 and 2003 ERIs and increasing amortization for the remaining unfunded liability
Remaining Amortization Period.....	As of July 1, 2010, 9 years remaining for 2002 ERI liability; 10 year remaining for 2003 liability and 25 years for 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 five-year period as described by Revenue Procedure 2000-40

Actuarial Assumptions:

Investment rate of return.....	8.125%
Projected salary increases.....	4.75% for Group 1 and 5.25% for Group 4
Cost of living adjustments.....	3.00% on first \$12,000 of retirement income

Plan Membership:

Retired participants and beneficiaries receiving benefits.....	4,833
Terminated participants entitled to a return of their employee contributions.....	2,994
Terminated participants with a vested right to a deferred or immediate benefit.....	232
Active participants.....	<u>8,946</u>
Total.....	<u><u>17,005</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 and Employer Contributions present multi-year trend information, which compares over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

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.