

**UP-ISLAND REGIONAL SCHOOL DISTRICT**

**INDEPENDENT AUDITORS' REPORT ON  
BASIC FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**



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**TABLE OF CONTENTS**

	<b>Page</b>
Independent Auditors' Report .....	1
Management's Discussion and Analysis .....	4
Basic Financial Statements .....	13
Statement of net position .....	14
Statement of activities .....	15
Governmental funds - balance sheet .....	16
Governmental funds - statement of revenues, expenditures, and changes in fund balances .....	18
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net position ....	20
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities .....	21
Fiduciary funds - statement of fiduciary net position .....	22
Fiduciary funds - statement of changes in fiduciary net position .....	23
Notes to basic financial statements .....	24
Required Supplementary Information .....	41
General fund - schedule of revenues, expenditures and change in fund balance - budget and actual .....	42
Pension plan schedules .....	44
Schedules of funding progress (system) .....	44
Schedule of employer contributions (system) .....	44
District share of system ARC .....	44
Other postemployment benefits schedule .....	45
Schedules of funding progress .....	45
Notes to required supplementary information .....	46

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# *Independent Auditors' Report*



*Certified Public Accountants*

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## **Independent Auditors' Report**

To the Honorable School Committee  
Up-Island Regional School District

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Up-Island Regional School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Up-Island Regional School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Up-Island Regional School District, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

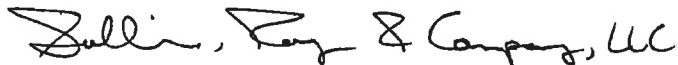
## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 4 through 12) and general fund budgetary comparison and certain pension and other postemployment benefits information (located on pages 41 through 46) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2014 on our consideration of the Up-Island Regional School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Up-Island Regional School District's internal control over financial reporting and compliance.



January 20, 2014

## *Management's Discussion and Analysis*

As management of the Up-Island Regional School District (District) we offer readers of these financial statements this narrative overview and analysis of the District's financial activities for the fiscal year ended June 30, 2013.

### *Financial Highlights*

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year by \$847,167 (net position).
- The District's total net position decreased by \$733,986.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$310,015, or 2.9% of total general fund expenditures and transfers out.

### *Overview of the Basic Financial Statements*

This discussion and analysis is intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

This report also contains required supplementary information in addition to the basic financial statements.

#### Government-wide financial statements

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

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

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

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

The government-wide financial statements can be found on pages 14-15 of this report.

### Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other school districts, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into the following categories and are described below:

1. Governmental funds
2. 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 funds financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable 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 funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains 13 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, school choice (special revenue), and West Tisbury school construction (capital projects) funds, each of which is considered to be a major fund. Data from the other 10 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 16-21 of this report.

#### **Fiduciary funds**

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

The fiduciary funds provide separate information for the District's private-purpose trust and agency funds.

The basic fiduciary funds financial statements can be found on pages 22-23 of this report.

#### **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. The notes to the financial statements can be found on pages 24-39 of this report.

**Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension and other postemployment information, which can be found on pages 41-46.

*Government-Wide Financial Analysis*

The following tables present current and prior year data on the government-wide financial statements.

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The District’s liabilities exceeded assets by \$847,167 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>	
	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Current assets.....	\$ 1,757,334	\$ 1,525,706
Capital assets (net).....	<u>1,879,910</u>	<u>2,142,403</u>
Total assets.....	<u>3,637,244</u>	<u>3,668,109</u>
<b>Liabilities</b>		
Current liabilities (excluding debt).....	958,851	758,406
Noncurrent liabilities (excluding debt).....	2,175,560	1,522,884
Current debt.....	150,000	150,000
Noncurrent debt.....	<u>1,200,000</u>	<u>1,350,000</u>
Total liabilities.....	<u>4,484,411</u>	<u>3,781,290</u>
<b>Net Position</b>		
Net investment in capital assets.....	529,910	642,403
Restricted.....	322,281	242,413
Unrestricted.....	<u>(1,699,358)</u>	<u>(997,997)</u>
Total net position.....	<u>\$ (847,167)</u>	<u>\$ (113,181)</u>

A portion of the District’s net position (\$529,910) reflects its investment in capital assets (e.g., construction in progress, building improvements, equipment, and transportation vehicles); less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to students; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position (\$322,281) represents resources that are subject to external restrictions on how they may be used.

The District reported an unrestricted net deficit of \$1,699,358. Such resources have been consumed with the recognition of other postemployment benefit liabilities.

Changes in Net Position

For the fiscal year ended June 30, 2013, the District's total net position decreased by \$733,986, compared to a decrease of \$639,165 in the prior fiscal year. These amounts are summarized as follows:

	<i>Governmental Activities</i>	
	<u>2013</u>	<u>2012</u>
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for services.....	\$ 72,498	\$ 66,686
Operating grants and contributions.....	1,436,876	1,364,030
Capital grants and contributions.....	1,350	71,610
<i>General Revenues:</i>		
Member town assessments (operating).....	8,730,751	8,242,946
Grants and contributions not restricted to specific programs.....	795,572	781,612
Unrestricted investment income.....	7,778	7,181
Other.....	2,522	5,752
<b>Total revenues.....</b>	<u>11,047,347</u>	<u>10,539,817</u>
<b>Expenses</b>		
<i>Instruction:</i>		
Regular.....	4,072,758	3,834,968
Special education.....	1,820,995	1,588,168
Other.....	58,421	59,138
<i>Support services:</i>		
Pupil.....	1,000,154	1,014,156
Instructional.....	350,014	357,627
Administration.....	1,532,760	1,471,134
Business.....	54,149	44,543
Buildings and grounds.....	1,067,972	1,112,354
Transportation.....	336,356	335,786
Food.....	240,498	141,852
Rent.....	378,804	406,617
State assessments.....	837,889	792,370
Debt service - interest.....	30,563	20,269
<b>Total expenses.....</b>	<u>11,781,333</u>	<u>11,178,982</u>
Change in net position.....	(733,986)	(639,165)
Net position - beginning of year.....	<u>(113,181)</u>	<u>525,984</u>
Net position - end of year.....	<u>\$ (847,167)</u>	<u>\$ (113,181)</u>

The key elements of the change in net position from the prior fiscal year are the decrease in capital grants and contributions of approximately \$71,000 and the increase of \$50,000 in the District's contribution to the Dukes County Pooled OPEB Trust.

### *Fund Financial Statement Analysis*

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

#### Governmental funds

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the District's financing requirements.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$807,501, an increase of \$30,737 in comparison with the prior year. Approximately \$310,000 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Restricted (\$322,281)
- Committed (\$172,000)
- Assigned (\$3,205)

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$310,015, while total fund balance was \$485,220. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents 2.9% of total general fund expenditures and transfers out, while total fund balance represents 4.6% of that same amount.

The fund balance of the general fund decreased \$53,857 during the current fiscal year. Although the District recognized an approximate \$238,000 positive budget to actual variance during the year, approximately \$295,000 of reserves were budgeted to fund fiscal year 2013 operations.

Financial highlights of the District's other major governmental funds are as follows:

The fund balance of the school choice fund (special revenue) increased by \$24,289 during the current fiscal year. The fund recognized \$279,351 in school choice tuition from the State, incurred expenditures of \$217,562, and transferred \$37,500 to the general fund during fiscal year 2013.

The fund balance of the West Tisbury School construction fund (capital projects) increased by \$4,726 during the current fiscal year for transfers in from the general fund.

General Fund Budgetary Highlights

The District's original general fund budget of \$9,959,553 was increased by \$142,226 (1.43%) during the fiscal year. The following table summarizes the increase:

Purpose of Increase	Amount	Funding Source
Contributions to OPEB trust.....	\$ 100,000	Unassigned fund balance
West Tisbury School teachers salaries.....	37,500	School choice
West Tisbury School Construction deficit.....	4,726	Unassigned fund balance
<b>Total increase.....</b>	<b>\$ 142,226</b>	

During the year, general fund revenues exceeded budgetary estimates and expenditures were less, resulting in a positive budget-actual variance of approximately \$238,000.

*Capital Asset and Debt Administration*

Capital assets

The District's investment in capital assets at the end of the fiscal year totaled \$1,879,910 (net of accumulated depreciation). This investment in capital assets includes buildings and improvements, equipment and transportation vehicles. The total decrease in the investment in capital assets for the current fiscal year totaled \$262,493, or 12.3%

The major capital asset events that occurred during the current fiscal year were equipment for the West Tisbury School kitchen (\$29,950) and a copier (\$12,250).

The following table summarizes the District's capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>	
	2013	2012
Building improvements.....	\$ 1,623,704	\$ 1,827,918
Equipment.....	43,795	17,108
Transportation vehicles.....	212,411	297,377
<b>Total capital assets.....</b>	<b>\$ 1,879,910</b>	<b>\$ 2,142,403</b>

Additional information on the District's capital assets can be found in Note 4 on pages 31 and 32 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded general obligation debt outstanding was \$1,350,000.

The District's bond rating from Standard & Poor's Ratings Services for the December 2011 bond issue was AA-.

Additional information on the District's long-term debt can be found in Note 8 on page 33 of this report.

### *Economic Factors and Next Year's Budgets and Rates*

#### **Revenues**

For the fiscal year 2014 revenue budget, the District Committee anticipated Chapter 70 school aid reimbursements from the Commonwealth to increase slightly from the fiscal year 2013 revenue budget. A second year of an additional aid calculation made by the legislature, the District's school aid revenue budget was increased by \$13,960 for fiscal year 2014.

The District's Charter School tuition rates increased slightly from fiscal year 2013. The fiscal year 2014 budget for tuition assessments to the Charter School was increased by \$19,960, an increase of 2.58%. The increase in Charter School tuition assessments causes an increase in Charter School tuition assessment reimbursements of \$12,992, an increase of 21.89%.

The District has a number of students attending schools outside of the District on the "School Choice" program. The budget for fiscal year 2014 estimates the tuition assessments based on enrollment in the program. With a significant decrease in the enrollment, the District's School Choice tuition assessment decreases by \$47,951 or 27.91% from the prior fiscal year.

All local elementary schools are "School Choice" receiving districts. The District's School Choice receiving enrollment is estimated to increase from fiscal year 2013. The tuition for fiscal year 2014 is budgeted into the School Choice Fund at \$231,412, an increase of \$13,850 from fiscal year 2013. This revenue is offset by budgeted expenditures within the School Choice Fund and reported to the Commonwealth as School Choice expenditures. In the General Fund, expenditures such as Teacher Salaries were decreased by \$231,412 to offset the expenditures budgeted and expended from the School Choice fund.

Chapter 71 regional transportation aid reimbursements were increased slightly by \$7,954 for fiscal year 2014 to align with fiscal year 2013 actual reimbursement calculations. The District Committee anticipates the reimbursement rate for regional transportation to remain level for fiscal year 2014.

The District received \$10,834 of Federal Impact Aid (Section 8003) during fiscal year 2013. This federal aid reflects the impact of Wampanoag tribal children housed in the member town of Aquinnah. The District Committee uses all Impact Aid revenues to reduce the Town of Aquinnah's assessment. Impact Aid is not budgeted as a revenue source.

The District's interest revenue has decreased due to low interest rates on cash holdings and investments. The budget for interest revenue was decreased from \$10,000 to \$7,500 for fiscal year 2014.

The District Committee voted at the end of fiscal year 2013 to commit \$100,000 of unreserved fund balance for the funding of future postemployment benefits. The District joined with other municipalities to create the Dukes County Pooled O.P.E.B. Trust. The Trust began receiving funds on July 1, 2012 and the District disbursed \$50,000 during fiscal year 2012 and \$100,000 during fiscal year 2013. For fiscal year 2014 the District Committee voted to fund an annual contribution through the expenditure budget, as opposed to funding from unreserved fund balance.

The District Committee also voted to fund the salaries and benefits of two Educational Support Professionals from unreserved fund balance as these two employees became necessary for Special Education supports after the fiscal year 2014 budget was certified.

## Expenditures

Increases in the operational budget for fiscal year 2014 totaled \$163,806 and increased 1.9% over fiscal year 2013. The operational increase is due to the addition of an annual expenditure to fund the liability of other postemployment benefits. Fiscal year 2014 begins a three year \$300,000 capital improvement plan for the Chilmark School site.

Other increases to the operational budget include the fiscal year 2014 salaries of the food service workers from the new program that began in September of 2012. The other operational expenses of the food service program will be borne by the School Lunch Revolving Fund. The District's health insurance offerings and pricing changed in 2012, allowing a decrease in the contribution of employee health insurance benefits.

The District pays a portion of the costs of the Martha's Vineyard Superintendency Union #19. For fiscal year 2014 these costs increased by \$67,116 or 7.93%. The Union provides several specialized special education and early elementary programs, including transportation, to the local school districts. These programs continue to expand based on enrollment from the member towns. The growth of these shared programs provided by the Union saves the District from having to operate small specialized programs on their own and the funding is shared by the member school districts of the Union.

Enrollment at the West Tisbury School site has stabilized. Increases to the West Tisbury School site budget consisted of contractual increases for teachers and other union personnel; and the addition of an elementary teacher which will divide the current multi-age classroom into two separate Grade One and Grade Two classrooms. Overall this site budget was increased by \$110,346 or 2.01% over fiscal year 2013.

Enrollment at the Chilmark School site increased in 2013. The District Committee budgeted for an additional half day of guidance, reading instruction, and technology support. Fiscal year 2014 budgeted expenses included student data management software and library supplies and materials. Due to a decrease in health insurance costs, the Chilmark School site budget was decreased by \$13,435, a 1.16% reduction.

The fiscal year 2014 assessment to the member towns of the District includes the overall operational budget, less the local revenues and reimbursements from the Commonwealth. The assessments were certified by the District Committee using the assessment method provided by the District's regional agreement. The assessments increased \$408,009 for fiscal year 2014, an increase of 4.67% over fiscal year 2013.

## *Requests for Information*

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the School Business Administrator, 4 Pine Street, Vineyard Haven, Massachusetts 02568.

## *Basic Financial Statements*

**STATEMENT OF NET POSITION**

JUNE 30, 2013

<b>ASSETS</b>	<u>Governmental Activities</u>
<b>Current assets:</b>	
Cash and cash equivalents.....	\$ 1,400,962
Restricted cash and cash equivalents.....	356,372
<b>Total current assets.....</b>	<u>1,757,334</u>
<b>Noncurrent assets:</b>	
Capital assets, net of accumulated depreciation.....	1,879,910
<b>Total assets.....</b>	<u>3,637,244</u>
 <b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Warrants payable.....	481,166
Accrued payroll.....	451,019
Other liabilities.....	17,648
Compensated absences.....	9,018
Long-term bonds and notes payable.....	150,000
<b>Total current liabilities.....</b>	<u>1,108,851</u>
<b>Noncurrent liabilities:</b>	
Compensated absences.....	81,158
Net OPEB obligation.....	2,094,402
Long-term bonds and notes payable.....	1,200,000
<b>Total noncurrent liabilities.....</b>	<u>3,375,560</u>
<b>Total liabilities.....</b>	<u>4,484,411</u>
 <b>NET POSITION</b>	
Net investment in capital assets.....	529,910
<b>Restricted for:</b>	
School choice.....	239,017
Other specific purposes.....	83,264
Unrestricted.....	<u>(1,699,358)</u>
<b>Total net position.....</b>	<u>\$ (847,167)</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government:</b>					
Governmental activities:					
Instruction:					
Regular.....	\$ 4,072,758	\$ -	\$ 643,451	\$ -	\$ (3,429,307)
Special education.....	1,820,995	-	186,087	-	(1,634,908)
Other.....	58,421	-	-	-	(58,421)
Support services:					
Pupil.....	1,000,154	-	85,530	-	(914,624)
Instructional.....	350,014	-	95,391	-	(254,623)
Administration.....	1,532,760	-	100,816	-	(1,431,944)
Business.....	54,149	-	-	-	(54,149)
Buildings and grounds.....	1,067,972	-	43,435	-	(1,024,537)
Transportation.....	336,356	-	182,249	-	(154,107)
Food.....	240,498	72,498	19,221	1,350	(147,429)
Rent.....	378,804	-	-	-	(378,804)
State assessments.....	837,889	-	80,696	-	(757,193)
Debt service - interest.....	30,563	-	-	-	(30,563)
Total governmental activities.....	\$ 11,781,333	\$ 72,498	\$ 1,436,876	1,350	(10,270,609)
General revenues:					
Member town assessments.....					8,730,751
Grants and contributions not restricted to specific programs.....					795,572
Unrestricted investment income.....					7,778
Other.....					2,522
Total general revenues.....					9,536,623
Change in net position.....					(733,986)
Net position - beginning of year.....					(113,181)
Net position - end of year.....				\$	(847,167)

See notes to basic financial statements.

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2013

<b>ASSETS</b>	<u>General</u>	<u>School Choice</u>	<u>West Tisbury School Construction</u>
Cash and cash equivalents.....	\$ 1,400,962	\$ -	\$ -
Restricted assets:			
Cash and cash equivalents.....	<u>-</u>	<u>239,017</u>	<u>-</u>
<b>TOTAL ASSETS.....</b>	<b><u>\$ 1,400,962</u></b>	<b><u>\$ 239,017</u></b>	<b><u>\$ -</u></b>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Warrants payable.....	\$ 453,779	\$ -	\$ -
Accrued payroll.....	444,315	-	-
Other liabilities.....	<u>17,648</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES.....</b>	<b><u>915,742</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
 <b>FUND BALANCES:</b>			
Restricted.....	-	239,017	-
Committed.....	172,000	-	-
Assigned.....	3,205	-	-
Unassigned.....	<u>310,015</u>	<u>-</u>	<u>-</u>
<b>TOTAL FUND BALANCES.....</b>	<b><u>485,220</u></b>	<b><u>239,017</u></b>	<b><u>-</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b><u>\$ 1,400,962</u></b>	<b><u>\$ 239,017</u></b>	<b><u>\$ -</u></b>

See notes to basic financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 1,400,962
<u>117,355</u>	<u>356,372</u>
<u>\$ 117,355</u>	<u>\$ 1,757,334</u>
\$ 27,387	\$ 481,166
6,704	451,019
-	17,648
<u>34,091</u>	<u>949,833</u>
83,264	322,281
-	172,000
-	3,205
<u>-</u>	<u>310,015</u>
<u>83,264</u>	<u>807,501</u>
<u>\$ 117,355</u>	<u>\$ 1,757,334</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General	School Choice	West Tisbury School Construction
<b>REVENUES</b>			
Member town assessments.....	\$ 8,730,751	\$ -	\$ -
User fees.....	-	-	-
Intergovernmental:			
State aid - foundation.....	795,572	-	-
State aid - transportation.....	182,249	-	-
State aid - charter school assessment reimbursement.....	80,696	-	-
Federal aid - impact aid.....	10,834	-	-
Other state and federal grants.....	755,633	279,351	-
Departmental and other.....	2,522	-	-
Contributions and donations.....	-	-	-
Investment income.....	7,778	-	-
	<u>10,566,035</u>	<u>279,351</u>	<u>-</u>
TOTAL REVENUES.....			
<b>EXPENDITURES</b>			
Current:			
Instruction:			
Regular.....	2,540,836	217,562	-
Special education.....	1,160,779	-	-
Other.....	53,099	-	-
Support services:			
Pupil.....	682,672	-	-
Instructional.....	215,999	-	-
Administration.....	1,041,222	-	-
Business.....	54,149	-	-
Buildings and grounds.....	708,591	-	-
Transportation.....	251,390	-	-
Food.....	1,488	-	-
Rent.....	378,804	-	-
Pension benefits.....	900,691	-	-
Employee benefits.....	1,247,466	-	-
Property and liability insurance.....	118,517	-	-
State assessments:			
Charter school.....	837,889	-	-
School choice.....	102,911	-	-
Debt service - principal.....	150,000	-	-
Debt service - interest.....	30,563	-	-
	<u>10,477,066</u>	<u>217,562</u>	<u>-</u>
TOTAL EXPENDITURES.....			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	<u>88,969</u>	<u>61,789</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in.....	37,500	-	4,726
Transfers out.....	(180,326)	(37,500)	-
	<u>(142,826)</u>	<u>(37,500)</u>	<u>4,726</u>
TOTAL OTHER FINANCING SOURCES (USES).....			
NET CHANGE IN FUND BALANCES.....	(53,857)	24,289	4,726
FUND BALANCES AT BEGINNING OF YEAR.....	539,077	214,728	(4,726)
FUND BALANCES AT END OF YEAR.....	<u>\$ 485,220</u>	<u>\$ 239,017</u>	<u>\$ -</u>

See notes to basic financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 8,730,751
72,498	72,498
-	795,572
-	182,249
-	80,696
-	10,834
128,114	1,163,098
-	2,522
1,350	1,350
-	7,778
<u>201,962</u>	<u>11,047,348</u>
-	2,758,398
21,559	1,182,338
5,323	58,422
-	682,672
29,137	245,136
-	1,041,222
-	54,149
-	708,591
-	251,390
265,964	267,452
-	378,804
-	900,691
-	1,247,466
-	118,517
-	837,889
-	102,911
-	150,000
-	30,563
<u>321,983</u>	<u>11,016,611</u>
<u>(120,021)</u>	<u>30,737</u>
175,600	217,826
-	(217,826)
<u>175,600</u>	<u>-</u>
55,579	30,737
<u>27,685</u>	<u>776,764</u>
<u>\$ 83,264</u>	<u>\$ 807,501</u>

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

JUNE 30, 2013

Total governmental fund balances (page 17).....	\$	807,501
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		1,879,910
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.....		(1,350,000)
Compensated absences.....		(90,176)
Net OPEB obligation.....		<u>(2,094,402)</u>
Net position of governmental activities (page 14).....	\$	<u>(847,167)</u>

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**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds (page 19).....	\$	30,737
<p>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. These amounts represent the related activity of the current period.</p>		
Capital outlays.....		42,200
Depreciation.....		(304,693)
<p>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 impact on net position. This amount represents the related activity of the current period.</p>		
Bond maturities.....		150,000
<p>Some expenses reported in the statement activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:</p>		
Compensated absences.....		4,468
Net OPEB obligation.....		(656,698)
Changes in net position of governmental activities (page 15).....	\$	<u>(733,986)</u>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET POSITION**

JUNE 30, 2013

<b>ASSETS</b>	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and cash equivalents.....	\$ 8,700	\$ 79,821
<b>LIABILITIES</b>		
Warrants payable.....	-	615
Liabilities due depositors.....	-	79,206
Total liabilities.....	-	79,821
<b>NET POSITION</b>		
Assets held in trust for other purposes.....	\$ 8,700	\$ -

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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	<u>Private Purpose Trust Funds</u>
<b>ADDITIONS</b>	
Net investment income:	
Interest.....	\$ 8
NET POSITION AT BEGINNING OF YEAR.....	<u>8,692</u>
NET POSITION AT END OF YEAR.....	<u>\$ 8,700</u>

See notes to basic financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. General**

The basic financial statements 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 standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

**B. Reporting Entity**

The District was formed in October 1993 pursuant to Chapter 71 of the Massachusetts General Laws (MGL). The District consists of the Towns of Aquinnah, Chilmark and West Tisbury, and is governed by the Up-Island Regional School Committee (Committee). The Committee consists of one representative from each member Town and two "at large" representatives.

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

The District has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the District are such that exclusion would cause the District's basic financial statements to be misleading or incomplete. There are no component units that meet the requirements for inclusion in the District's basic financial statements.

**C. Implementation of New Accounting Principles**

For the year ending June 30, 2013, the District implemented the following pronouncements issued by the GASB:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

GASB Statement No. 63 identifies net position as the residual of all other elements presented in a statement of financial position, which amends the net asset reporting requirements of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements, by renaming net assets to net position.

The implementation of GASB Statement No.'s 60, 61 and 62 had no reporting impact for the District.

**D. Government-Wide and Fund Financial Statements****Government-Wide Financial Statements**

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

### Fund Financial Statements

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column. Fiduciary funds are reported by fund type.

#### *E. Measurement Focus, Basis of Accounting and Basis of Presentation*

### Government-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. Member town assessments and intergovernmental billings are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

### Fund Financial Statements

**Governmental funds** 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.

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

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 used to account for and report all financial resources not accounted for and reported in another fund.

The *school choice fund* is a special revenue fund used to account for and report revenues and expenditures related to the District's school choice program, which allows children to attend schools in districts other than the Town in which they reside.

The *West Tisbury school construction fund* is a capital projects fund used to account for the accumulation of resources to upgrade and perform renovations on the West Tisbury Elementary School.

The nonmajor governmental funds consist of special revenue and capital projects funds 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:

*Special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

*Capital projects funds* are 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. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

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

The following fiduciary fund types are reported:

The *private-purpose trust fund* is used to account for trust arrangements under which principal and investment income exclusively benefits individuals (scholarships).

The *agency fund* is used to account for assets held in a custodial capacity. Such assets consist of student activity funds. Agency funds do not present the results of operations or have a measurement focus.

## ***F. Deposits 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.

## ***G. Accounts Receivable***

### Government-Wide and Fund Financial Statements

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

## ***H. Inventories***

### Government-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 governmental funds financial statements and therefore are not reported.

**I. Restricted Assets****Government-Wide and Fund Financial Statements**

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

**J. Capital Assets****Government-Wide Financial Statements**

Capital assets, which consist of building improvements, equipment and transportation vehicles, are reported in the governmental activities column of the government-wide financial statements. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Construction period interest is not capitalized on constructed capital assets.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets 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>
Buildings and improvements.....	5 - 15
Equipment.....	5 - 10
Transportation vehicles.....	10

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.

**K. Interfund Receivables and Payables**

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

**Government-Wide Financial Statements**

Transactions of a buyer/seller nature between governmental funds are eliminated from the governmental activities in the statement of net position.

Fund Financial Statements

Transactions of a buyer/seller nature between 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.

*L. Interfund Transfers*

During the course of its operations, resources are permanently reallocated between and within funds.

Government-Wide Financial Statements

Transfers between governmental funds are eliminated from the governmental activities in the statement of net position.

Fund Financial Statements

Transfers between funds are not eliminated from the individual fund statements and are reported as transfers in and transfers out.

*M. Net Position and Fund Balances*Government-Wide Financial Statements (Net Position)

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

Net position has been "restricted" for the following:

"School choice" represents restrictions placed on assets from outside parties related to the District's school choice program.

"Other specific purposes" represents other restrictions placed on assets from outside parties.

Governmental Funds Financial Statements (Fund Balances)

The following fund balance classifications describe the relative strength of the spending constraints:

*Restricted* – represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* – represents amounts that can be used only for specific purposes imposed by a formal action of School Committee, which is the highest level of decision-making authority for the District. Committed amounts may be established, modified, or rescinded only through actions approved by the School Committee.

*Assigned* – represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under the District's structure, only authorized assignments for non-contractual encumbrances can be made by individual department heads.

*Unassigned* – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

#### *N. Long-term Debt*

##### Government-Wide Financial Statements

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

##### Governmental Funds Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources when the debt is issued. 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 administration (support services) expenditures.

#### *O. Investment Income*

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

#### *P. Compensated Absences*

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

##### Government-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 upon employee retirements and resignations.

#### *Q. Post Retirement Benefits*

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

In addition to providing pension benefits, and as more fully described in Note 9, the District provides health and life insurance coverage for retirees and their spouses.

## *R. Use of Estimates*

### Government-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.

## *S. Total Column*

### Fund Financial Statements

The total column presented 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 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### *A. Budgetary Information*

Municipal Law requires the adoption of 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 two-thirds majority vote.

Subsequent to the Committee's approval, the budget is presented to the member towns. The budget is accepted by majority Town Meeting approval and must be approved by two-thirds of the District's members.

Increases in the budget subsequent to the approval of the annual budget require majority Committee approval.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the District is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2013 approved budget for the general fund authorized \$9,959,553 in appropriations. During fiscal year 2013, appropriations were increased by \$142,226.

The Accountant's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

The budgetary comparison schedule presented in the accompanying required supplementary information presents comparisons of the legally adopted budget, as amended, with actual results. The originally adopted budget is presented for purposes of comparison to the final amended budget.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

The municipal finance laws of the Commonwealth authorize the District to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool - the Massachusetts Municipal Depository Trust (MMDT).

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of private purpose trust funds are held separately from other District funds.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be recovered. The District does not have a policy for custodial credit risk of deposits. As of June 30, 2013, the District's bank balance of \$1,758,930 was insured and collateralized.

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
<u>Capital assets being depreciated:</u>				
Building improvements.....	\$ 2,111,329	\$ -	\$ -	\$ 2,111,329
Equipment.....	137,992	42,200	-	180,192
Transportation vehicles.....	594,759	-	-	594,759
Total capital assets being depreciated.....	<u>2,844,080</u>	<u>42,200</u>	<u>-</u>	<u>2,886,280</u>
<u>Less accumulated depreciation for:</u>				
Building improvements.....	(283,411)	(204,214)	-	(487,625)
Equipment.....	(120,884)	(15,513)	-	(136,397)
Transportation vehicles.....	(297,382)	(84,966)	-	(382,348)
Total accumulated depreciation.....	<u>(701,677)</u>	<u>(304,693)</u>	<u>-</u>	<u>(1,006,370)</u>
Total capital assets being depreciated, net.....	<u>2,142,403</u>	<u>(262,493)</u>	<u>-</u>	<u>1,879,910</u>
Total governmental activities capital assets, net.....	<u>\$ 2,142,403</u>	<u>\$ (262,493)</u>	<u>\$ -</u>	<u>\$ 1,879,910</u>

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

**Governmental Activities:**

Instruction: Regular.....	\$	11,784
Support Services: Food.....		2,995
Support Services: Administration.....		734
Support Services: Transportation.....		84,966
Support Services: Building and grounds.....		204,214
		<u>204,214</u>
Total depreciation expense - governmental activities.....	\$	<u>304,693</u>

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2013, are summarized as follows:

Transfers Out:	Transfers In:			Total
	General Fund	West Tisbury School Construction Fund	Nonmajor Governmental Funds	
General Fund.....	\$ -	\$ 4,726	\$ 175,600	\$ 180,326 (1)
School Choice Fund.....	37,500	-	-	37,500 (2)
	<u>\$ 37,500</u>	<u>\$ 4,726</u>	<u>\$ 175,600</u>	<u>\$ 217,826</u>

- (1) Represents budgeted transfers from the general fund to the West Tisbury school kitchen renovation capital projects fund (\$100,000) and school lunch special revenue fund (\$75,600). Also represents budgeted transfer from the general fund to the West Tisbury school construction fund (\$4,726) to fund the respective fund deficit.
- (2) Represents budgeted transfer from the school choice major fund to the general fund.

**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 anticipation notes (RAN) or tax anticipation notes (TAN).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BAN) or grant anticipation notes (GAN).

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

The District had no short-term debt activity for the fiscal year ended June 30, 2013.

**NOTE 7 - LONG-TERM OBLIGATIONS**

The following represents a summary of changes that occurred in long-term obligations during the fiscal year ended June 30, 2013:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Current Portion
<b>Governmental Activities:</b>					
Bonds and notes payable.....	\$ 1,500,000	\$ -	\$ (150,000)	\$ 1,350,000	\$ 150,000
Compensated absences.....	94,644	-	(4,469)	90,176	9,018
Net OPEB obligation.....	1,437,704	1,063,527	(406,829)	2,094,402	-
<b>Total.....</b>	<b>\$ 3,032,348</b>	<b>\$ 1,063,527</b>	<b>\$ (561,298)</b>	<b>\$ 3,534,578</b>	<b>\$ 159,018</b>

Long-term obligations are liquidated by the general fund.

**NOTE 8 - LONG-TERM DEBT**

Details related to the District's outstanding indebtedness at June 30, 2013, and the future debt service requirements are as follows:

**Bonds Payable - Governmental Funds**

Project	Interest Rate	Outstanding at June 30, 2012	Issued	Redeemed	Outstanding at June 30, 2013
West Tisbury Elementary School Project.....	2.00% - 2.625%	\$ 1,500,000	\$ -	\$ (150,000)	\$ 1,350,000

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

Fiscal Year	Principal	Interest	Total
2014.....	\$ 150,000	\$ 27,563	\$ 177,563
2015.....	150,000	24,563	174,563
2016.....	150,000	21,563	171,563
2017.....	150,000	18,563	168,563
2018.....	150,000	15,563	165,563
2019.....	150,000	12,563	162,563
2020.....	150,000	9,375	159,375
2021.....	150,000	5,813	155,813
2022.....	150,000	1,969	151,969
<b>Total.....</b>	<b>\$ 1,350,000</b>	<b>\$ 137,531</b>	<b>\$ 1,487,531</b>

**NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS**

**Plan Description** - The District provides health and life insurance coverage for its retirees and their survivors (hereinafter referred to as the "Plan") as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process.

The number of participants as of July 1, 2012, the latest actuarial valuation, is as follows:

Active employees.....	89
Retired employees.....	<u>36</u>
Total.....	<u><u>125</u></u>

***Dukes County Pooled OPEB Trust Fund***

During fiscal year 2012, the District became a member of the Dukes County Pooled OPEB Trust Fund (Trust), an agent multiple-employer plan. The purpose of the Trust is to accumulate resources to offset its members' (various governmental units) unfunded OPEB liability. The Trust is governed by a Board of Trustees comprised of an appointed member from each governmental unit. Member/Employer contributions to the trust are irrevocable and all investment income (losses) is retained by the Trust. Although the assets of the Trust are commingled for investment purposes, each member's assets may only be used for the reimbursement of OPEB to the member of that plan, in accordance with the terms of the plan. The Trust does not currently issue separate standalone financial statements.

During fiscal year 2013, the District made contributions to the Trust in the amount of \$100,000.

**Funding Policy** - The contribution requirements of Plan members and the District are established and may be amended by the District. The required health insurance contribution rates of Plan members and the District are 25% and 75%, respectively. The Plan members contribute 25% and the District contributes 75%, respectively, towards a \$5,000 term life insurance premium. Except for amounts transferred to the Trust, the District currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the District.

**Annual OPEB Cost and Net OPEB Obligation** - The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

	<u>Amount</u>
Annual required contribution.....	\$ 1,050,475
Interest on net OPEB obligation.....	57,508
Adjustment to annual required contribution.....	<u>(44,456)</u>
Annual OPEB cost.....	1,063,527
Contributions made (pay-as-you-go).....	(306,829)
Contributions made to Trust.....	<u>(100,000)</u>
Increase in net OPEB obligation.....	656,698
Net OPEB obligation at beginning of year.....	<u>1,437,704</u>
Net OPEB obligation at end of year.....	<u><u>\$ 2,094,402</u></u>

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

*Dollar Amounts in Thousands*

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOPEBC)</u>	<u>Percentage of AOPEBC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2011.....	\$ 707,934	29.2%	\$ 945,525
June 30, 2012.....	865,754	43.2%	1,437,704
June 30, 2013.....	1,063,527	38.3%	2,094,402

**Funded Status and Funding Progress** - The funded status of the Plan at July 1, 2012, the most recent actuarial valuation, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
07/01/12	\$ 50,000	\$ 14,374,314	\$ 14,324,314	-	\$ 4,832,827	296%

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 multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The significant methods and assumptions as of the latest actuarial valuation are as follows:

Valuation date:	July 1, 2012
Actuarial cost method:	Projected Unit Credit
Amortization method:	Increasing at 4.5% over 30 years (open and closed)
Remaining amortization period:	30 years at July 1, 2012 (open period)
Interest discount rate:	4.0%
Healthcare/Medical cost trend rate:	9.0% decreasing 1.0% annually to an ultimate level of 5.0%
Inflation rate:	4.5% annually

**Allocation of AOPEBC** - AOPEBC costs were allocated to the District's functions as follows:

<b>Governmental Activities:</b>	
Instruction: Regular.....	\$ 497,210
Instruction: Special Education.....	203,141
Support Services: Pupil.....	120,381
Support Services: Instructional.....	39,767
Support Services: Administration.....	141,895
Support Services: Building & Grounds.....	<u>61,133</u>
Total AOPEBC - governmental activities.....	<u>\$ 1,063,527</u>

**NOTE 10 - FUND BALANCES**

The constraints on fund balances as listed in aggregate in the Governmental Funds Balance Sheet are detailed as follows:

	General	School Choice	Nonmajor Governmental Funds	Total Governmental Funds
<b>Restricted for:</b>				
School choice.....	\$ -	\$ 239,017	\$ -	\$ 239,017
Special education.....	-	-	41,756	41,756
School lunch.....	-	-	2,706	2,706
Other.....	-	-	38,802	38,802
Sub-total - Restricted.....	<u>-</u>	<u>239,017</u>	<u>83,264</u>	<u>322,281</u>
<b>Committed to:</b>				
Subsequent year's expenditures.....	72,000	-	-	72,000
Other postemployment benefits.....	100,000	-	-	100,000
Sub-total - Committed.....	<u>172,000</u>	<u>-</u>	<u>-</u>	<u>172,000</u>
<b>Assigned to:</b>				
Buildings and grounds.....	3,205	-	-	3,205
Unassigned.....	310,015	-	-	310,015
Total fund balances.....	<u>\$ 485,220</u>	<u>\$ 239,017</u>	<u>\$ 83,264</u>	<u>\$ 807,501</u>

**NOTE 11 - 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 amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The District participates in a health insurance risk pool administered by the Cape Cod Municipal Health Group (Group). The Group offers a variety of premium based plans to its members with each participating governmental unit charged a premium for coverage based on rates established by the Group. The District is obligated to pay the Group its required premiums and, in the event the Group is terminated, its proportionate share of a deficit, should one exist.

**NOTE 12 - PENSION PLAN**

*Plan Description* - The District contributes to the Dukes County Contributory Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Dukes County Retirement Board. Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System.

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Dukes County Retirement Board and are borne by the System. The System issues a publicly available 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 9 Airport Road, Edgartown, Massachusetts, 02539.

*Funding Policy* - Chapter 32 of MGL governs the contributions of plan members and the District. 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 annual covered payroll. The District's contributions to the System for the fiscal years ended June 30, 2013, 2012, and 2011 were \$147,918, \$162,000 and \$154,688, respectively, which equaled its required contribution for each fiscal year.

**NOTE 13 - MASSACHUSETTS TEACHERS RETIREMENT SYSTEM**

Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System, to which the District does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$755,633 for the fiscal year ended June 30, 2013, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

**NOTE 14 - COMMITMENTS**

The District utilizes a School Building from the Town of Chilmark. The District has verbally agreed to pay rent in the amount of the annual debt service costs associated with the original school construction project. Rental payments for fiscal year 2013 totaled approximately \$213,000 and are reported as rent expenditures.

The District utilizes a School Building from the Town of West Tisbury. The District has verbally agreed to pay rent in the amount of the annual debt service costs associated with the original school construction project. Rental payments for fiscal year 2013 totaled approximately \$165,000 and are reported as rent expenditures.

**NOTE 15 - CONTINGENCIES**

Various legal actions and claims are pending against the District. 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, 2013, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the District at June 30, 2013.

The District participates in several federal awards programs. The programs are 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 the District expects such amounts, if any, to be immaterial.

**NOTE 16 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS**

The GASB has issued the following statements:

- Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will significantly impact the basic financial statements.
- Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which is required to be implemented during fiscal year 2014. Management has determined that the implementation of this Statement will not impact the basic financial statements.
- Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which is required to be implemented during fiscal year 2015. The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the District will be required to recognize its long-term obligation for pension benefits as a liability and to more comprehensively measure the annual costs of pension benefits. The implementation of this Statement also expands pension related note disclosures and required supplementary information.
- Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented during fiscal year 2015. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will impact the basic financial statements.

These pronouncements will be implemented by their respective implementation dates.

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## *Required Supplementary Information*

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
<b>REVENUES</b>				
Member town assessments.....	\$ -	\$ 8,739,402	\$ (10,834)	\$ 8,728,568
Intergovernmental:				
State aid - foundation.....	-	781,612	-	781,612
State aid - transportation.....	-	175,701	-	175,701
State aid - charter school assessment reimbursement.....	-	59,338	-	59,338
Federal aid - impact aid.....	-	-	10,834	10,834
Investment income.....	-	10,000	-	10,000
Departmental & other.....	-	3,500	-	3,500
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>9,769,553</b>	<b>-</b>	<b>9,769,553</b>
<b>EXPENDITURES</b>				
Current:				
Instruction:				
Regular.....	-	2,527,848	37,500	2,565,348
Special education.....	-	1,199,475	-	1,199,475
Other.....	-	56,581	-	56,581
Support services:				
Pupil.....	-	692,048	-	692,048
Instructional.....	-	217,849	-	217,849
Administration.....	-	1,063,048	-	1,063,048
Business.....	-	56,931	-	56,931
Buildings and grounds.....	320	725,112	-	725,432
Transportation.....	-	253,762	-	253,762
Food.....	-	4,200	-	4,200
Rent.....	-	378,804	-	378,804
Pension benefits.....	-	145,077	-	145,077
Employee benefits.....	-	1,218,887	100,000	1,318,887
Property and liability insurance.....	-	119,558	-	119,558
State assessments:				
Charter school.....	-	772,410	-	772,410
School choice.....	-	171,800	-	171,800
Debt service - principal.....	-	150,000	-	150,000
Debt service - interest.....	-	30,563	-	30,563
<b>TOTAL EXPENDITURES.....</b>	<b>320</b>	<b>9,783,953</b>	<b>137,500</b>	<b>9,921,773</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(320)</b>	<b>(14,400)</b>	<b>(137,500)</b>	<b>(152,220)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in.....	-	-	37,500	37,500
Transfers out.....	-	(175,600)	(4,726)	(180,326)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>(175,600)</b>	<b>32,774</b>	<b>(142,826)</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(320)</b>	<b>(190,000)</b>	<b>(104,726)</b>	<b>(295,046)</b>
FUND BALANCE AT BEGINNING OF YEAR.....	539,077	539,077	539,077	539,077
FUND BALANCE AT END OF YEAR.....	\$ 538,757	\$ 349,077	\$ 434,351	\$ 244,031

See notes to required supplementary information.

<u>Actual</u>	<u>Current Year Encumbrances and Continuing Appropriations</u>	<u>Actual and Encumbrances and Continuing Appropriations</u>	<u>Variance Positive/ (Negative)</u>
\$ 8,730,751	\$ -	\$ 8,730,751	\$ 2,183
795,572	-	795,572	13,960
182,249	-	182,249	6,548
80,696	-	80,696	21,358
10,834	-	10,834	-
7,778	-	7,778	(2,222)
2,522	-	2,522	(978)
<u>9,810,402</u>	<u>-</u>	<u>9,810,402</u>	<u>40,849</u>
2,540,836	-	2,540,836	24,512
1,160,779	-	1,160,779	38,696
53,099	-	53,099	3,482
682,672	-	682,672	9,376
215,999	-	215,999	1,850
1,041,222	-	1,041,222	21,826
54,149	-	54,149	2,782
708,591	3,205	711,796	13,636
251,390	-	251,390	2,372
1,488	-	1,488	2,712
378,804	-	378,804	-
145,058	-	145,058	19
1,247,466	-	1,247,466	71,421
118,517	-	118,517	1,041
837,889	-	837,889	(65,479)
102,911	-	102,911	68,889
150,000	-	150,000	-
30,563	-	30,563	-
<u>9,721,433</u>	<u>3,205</u>	<u>9,724,638</u>	<u>197,135</u>
<u>88,969</u>	<u>(3,205)</u>	<u>85,764</u>	<u>237,984</u>
37,500	-	37,500	-
(180,326)	-	(180,326)	-
<u>(142,826)</u>	<u>-</u>	<u>(142,826)</u>	<u>-</u>
(53,857)	(3,205)	(57,062)	237,984
<u>539,077</u>	<u>539,077</u>	<u>539,077</u>	<u>-</u>
<u>\$ 485,220</u>	<u>\$ 535,872</u>	<u>\$ 482,015</u>	<u>\$ 237,984</u>

## PENSION PLAN SCHEDULES

The following schedules provide information related to the System as a whole, for which the District is one participating employer:

### SCHEDULES OF FUNDING PROGRESS (SYSTEM)

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)
01/01/01	\$ 31,491,429	\$ 45,304,948	\$ 13,813,519	69.5%	\$ 18,408,970	75.0%
01/01/03	36,978,826	63,042,045	26,063,219	58.7%	20,191,180	129.1%
01/01/05	43,587,979	68,303,109	24,715,130	63.8%	22,710,276	108.8%
01/01/07	53,493,298	82,756,819	29,263,521	64.6%	26,285,973	111.3%
01/01/09	60,628,878	97,882,251	37,253,373	61.9%	30,407,294	122.5%
01/01/11	73,989,143	110,358,557	36,369,414	67.0%	29,118,456	124.9%

### SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2007	\$ 3,612,812	100
2008	4,200,863	100
2009	4,398,687	100
2010	4,663,656	100
2011	4,575,700	100
2012	5,112,101	100

The following schedule provides information related to the District's portion of the System's ARC:

### DISTRICT SHARE OF SYSTEM ARC

Fiscal Year Ended	ARC	Percentage of ARC Contributed (%)	District ARC as a Percentage of System ARC (%)
2008	\$ 130,244	100	3.6%
2009	160,808	100	3.8%
2010	168,463	100	3.8%
2011	154,688	100	3.3%
2012	162,000	100	3.5%
2013	147,918	100	2.9%

**OTHER POSTEMPLOYMENT BENEFITS SCHEDULE**

The following schedule provides information related to the District’s other postemployment benefits plan:

**SCHEDULES OF FUNDING PROGRESS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
06/30/09	\$ -	\$ 9,510,991	\$ 9,510,991	-	\$ 5,020,201	189%
07/01/10	-	11,676,261	11,676,261	-	4,424,570	264%
07/01/12	50,000	14,374,314	14,324,314	0.35%	4,832,827	296%

The significant changes to the methods and assumptions used in the actuarial valuations above that impacted trends in the schedules of funding progress are as follows:

- The 07/01/10 valuation reflects unfavorable claims experience that resulted in a change in plan rates
- The 07/01/10 valuation reflects an increase in the healthcare trend rate
- The 07/01/10 valuation reflects an increase in the discount rate from 3.5% to 4.0%
- The 07/01/10 valuation reflects an increase in plan participation rates

**NOTE A - BUDGETARY - GAAP RECONCILIATION**

For budgetary financial reporting purposes, the Uniform Massachusetts 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, 2013, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>
Budgetary basis as reported on the schedule of revenues, expenditures and change in fund balance - budget and actual.....	\$ 9,810,402	\$ 9,724,638
<u>Adjustments</u>		
To record activity for MTRS on-behalf payments.....	755,633	755,633
To record encumbrances.....	-	<u>(3,205)</u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 10,566,035</u>	<u>\$ 10,477,066</u>

**NOTE B - PENSION PLAN**

Additional information as of the latest actuarial valuation is as follows:

Valuation date:	January 1, 2011
Actuarial cost method:	Entry age normal
Amortization method:	4.5% increasing payments
Remaining amortization period:	18 years (closed)
Asset valuation method:	Asset smoothing
<u>Actuarial assumptions:</u>	
Investment rate of return:	8.0%
Cost of living adjustments:	3.0% of the first \$12,000 of retirement income
Projected salary increases:	5.0%