

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT

FINANCIAL STATEMENTS
INCLUDING INDEPENDENT AUDITORS' REPORTS
FOR THE YEAR ENDED JUNE 30, 2014

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the School Committee of the
Dudley-Charlton 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 Dudley-Charlton Regional School District of the Commonwealth of Massachusetts (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the 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 State 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 of 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 District as of June 30, 2014, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2-1 through 2-8 and the schedule of other post-employment benefits funding progress on page 6-12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and other awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and other schedules, and the schedule of expenditures of federal and other awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and other schedules, and the schedule of expenditures of federal and other awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The management's discussion and analysis and the schedule of other post-employment benefits funding progress have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 District's internal control over financial reporting and compliance.

Stanley H. Kulas, CPA

STANLEY H. KULAS
Certified Public Accountant

February 6, 2015

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014

As management of the Dudley-Charlton Regional School District of the Commonwealth of Massachusetts, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information provided throughout this document.

FINANCIAL HIGHLIGHTS

On the government-wide financial statement basis:

- Assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$36,594,644 (Exhibit A).
- The District's total net position decreased by \$4,042,211 (Exhibit B). The decrease was largely due to the increase of \$1,734,154 in the District's OPEB (Other Post-Employment Benefits) obligations; and \$1,776,200 of depreciation expense.

On the fund financial statement basis:

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,470,843 (Exhibit C), a decrease of \$1,368,743 in comparison with the prior year (Exhibit D).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,916,288 (Exhibit C), or 4.06% of next year's budgeted expenditures of \$47,225,412.
- As of June 30, 2014, the health insurance fund reported a fund balance of \$197,177 (Exhibit C), a decrease of \$520,837 in comparison with the prior year (Exhibit D).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The government-wide financial statements are designed to provide readers with a broad overview of 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 and liabilities, with the difference between the two 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 District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected state grants are recognized as receivables due from other governments and earned but unused vacation leave and sick pay is recognized as a liability for compensated absences).

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014

Both of the government-wide financial statements distinguish functions of the District that are principally supported by assessments 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 District has no business-type activities. The governmental activities of the District include administration, regular instruction, ancillary school services, special education, maintenance and operations, insurance and employee benefits, transportation, sewer use charges, and debt service.

The government-wide financial statements can be found in Exhibits A and B 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 state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District 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 financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating 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 impact of the government's near-term financing decisions. Reconciliations to facilitate this comparison between governmental funds and governmental activities are provided in Exhibit C and Exhibit D.

The District maintains numerous individual governmental funds. Information is presented separately in the governmental funds balance sheet (Exhibit C) and in the governmental funds statement of revenues, expenditures, and changes in fund balances (Exhibit D) for the general fund, the health insurance fund and the State's payment on-behalf of teacher retirement fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining schedules 1 through 6 in this report.

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 (Exhibit E).

The basic governmental fund financial statements can be found in Exhibits C through E 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 statement because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is the accrual basis.

The basic fiduciary fund financial statements can be found in Exhibits F and G 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 basic financial statements can be found in Exhibit H of this report.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014

Other information - The combining schedules referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund schedules and other types of schedules can be found in Schedules 1 through 11 of this report.

Summary of the major features of the government-wide and fund financial statements

	-----Fund Financial Statements-----			
	Government-wide Statements	Governmental	Proprietary (*)	Fiduciary
Scope	Entire District (except fiduciary funds)	The activity of the District that is not proprietary or fiduciary, such as general government, public safety, and education.	Activities the District operates similar to private businesses.	Assets held by the District on behalf of someone else. Students and other organizations that have funds on deposit with the District are reported here.
Required financial statements	Statement of net position, & statement of activities	Balance sheet and statement of revenues, expenditures and changes in fund balance.	Statement of net position, and statement of revenues, expenses and changes in net position, and statement of cash flows.	Statement of fiduciary net position and statement of changes in fiduciary net position.
Basis of accounting and measurement focus.	Accrual accounting Economic resources focus	Modified accrual accounting. Current financial resources focus	Accrual accounting Economic resources focus	Accrual accounting Economic resources focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter. No capital assets or long-term liabilities included	All assets and liabilities, both financial and capital; short-term and long-term	All assets and liabilities, both financial and capital; short-term and long-term. These funds do not currently contain any capital assets, although they can
Type of inflow and outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability are due and payable	All revenues and expenses during the year, regardless of when cash is received or paid.	All additions or deductions during the year, regardless of when cash is received or paid

(*) – The District has no proprietary funds

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The District's assets exceeded liabilities by \$36,594,644 (Exhibit A) at the close of the most recent fiscal year.

By far the largest portion of the District's net position reflects its investment in capital assets (e.g. land, land improvements, buildings, machinery, and equipment, etc.); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to school children; consequently, these assets are not available for future spending. Although the District's 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 services, since the capital assets themselves cannot be used to liquidate these liabilities.

DISTRICT'S NET POSITION (Exhibit A)		
Description	Amount 2014	Amount 2013
Current and other assets	\$ 21,372,783	\$ 23,952,950
Capital assets - net	47,878,850	49,603,990
Total assets	69,251,633	73,556,940
Current liabilities	5,485,534	4,909,263
Current portion of long-term obligations	2,730,000	2,605,000
Long-term debt	12,280,000	15,010,000
OPEB obligations.	10,456,145	8,721,991
Compensated absences	1,705,310	1,673,831
Total liabilities	32,656,989	32,920,085
Net position:		
Invested in capital assets, net of related debt	32,868,850	31,988,990
Restricted	12,511,051	14,827,068
Unrestricted	(8,785,257)	(6,179,203)
Total net position	\$ 36,594,644	\$ 40,636,855

A portion of the District's net position at June 30, 2014 and June 30, 2013 totaling \$12,511,051 and \$14,827,068, respectively, represents resources that are subject to external restrictions on how they may be used. Unrestricted net position of \$(8,785,257) and \$(6,179,203) at June 30, 2014 and June 30, 2013 are further segregated by internal reserves and designations (Exhibit C) as listed below.

	2014	2013
Reduction of next year's assessments for:		
Operations	\$ 1,300,000	\$ 1,250,000
Reserves to be used in the future:		
Sewer use charges.	37,522	38,836
Total internal designations.	1,337,522	1,288,836
Undesignated and unreserved	(10,122,779)	(7,468,039)
Total unrestricted net assets.	\$ (8,785,257)	\$ (6,179,203)

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014

Government-wide financial activities decreased the District's net position by \$4,042,211 (Exhibit B) in fiscal year 2014 and by \$2,704,666 in fiscal year 2013. Key elements of these changes are listed below.

Description	Amount	
	2014	2013
Revenues:		
Program revenue:		
Operating grants, contributions and aid	\$ 10,862,327	\$ 10,064,320
Capital contributions	635,376	714,569
Member town assessments	1,097,975	1,203,613
Charges for services	10,980,928	7,704,938
Other	87,881	71,215
General revenues:		
Member town assessments	16,321,884	15,868,432
Grants & contributions not restricted to specific programs	23,837,398	23,840,679
Interest	18,600	22,622
Charges for services	2,261	19,418
Miscellaneous	79,923	64,263
Total revenues	63,924,553	59,574,069
Expenses:		
Administration	1,930,759	1,812,839
Regular instruction	20,437,401	19,715,693
Preschool and special education	9,572,104	8,817,659
Ancillary school services	2,038,333	2,012,332
Maintenance and operations	3,508,857	2,983,813
Insurance and employee benefits	25,101,676	21,522,359
Transportation	2,804,091	2,715,730
Sewer use charges	25,796	27,071
Unallocated depreciation	1,631,703	1,623,653
Debt service - interest on long-term debt	916,044	1,047,586
Total expenses	67,966,764	62,278,735
Change in net position	\$ (4,042,211)	\$ (2,704,666)

The more significant changes for the year are listed below.

- For fiscal year 2014, the District recognized an additional expense of \$1,734,154 related to its OPEB obligations, in comparison to an increase of \$1,724,164 in the prior year.
- On-behalf payments by the State to the teacher retirement system of totaled \$5,912,420 for fiscal year 2014 compared to \$5,440,484 for fiscal year 2013.
- Depreciation expense totaled \$1,776,200 for fiscal year 2014 compared to \$1,798,149 for fiscal year 2013.
- Insurance and employee benefits increased by \$3,579,277 in fiscal year 2014, compared to an increase of \$233,421 for fiscal year 2013. Expenses associated with the District's health insurance fund increased by \$3,024,988 for fiscal year 2014 compared with a decrease of \$215,544 for fiscal year 2013. The increase in health insurance expense was partially offset by reimbursements the District received under its stop-loss insurance plan. The District received reimbursements under its stop-loss insurance plan of \$3,331,940 in fiscal year 2014 compared with \$217,279 in fiscal year 2013. These reimbursements are part of the Program Revenues - Charges for Services shown above.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014

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 the District's governmental funds are to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,470,843 (Exhibit C) compared with \$6,839,586 in the prior fiscal year. Fund balances at June 30, 2014 decreased by \$1,368,743 (Exhibit D) compared with a decrease of \$353,917 at June 30, 2013. A summary of the components comprising this fund balance is described below.

DISTRICT'S FUND BALANCE IN ITS GOVERNMENTAL FUNDS		
Description	Amount	
	2014	2013
Nonspendable food service inventory	\$ 15,955	\$ 15,690
Assigned by school committee vote	1,300,000	1,250,000
Restricted by grantors or by enabling legislation.	2,017,721	2,548,143
Committed to meet outstanding obligations to third parties.	242,021	764,172
Unassigned - available for spending at the government's discretion	1,895,146	2,261,581
Total fund balances	\$ 5,470,843	\$ 6,839,586

- The general fund is the chief operating fund of the District. At the end of the current fiscal year, total fund balance was \$3,253,810 of which \$1,916,288 was the unreserved fund balance. Unreserved fund balance represents 4.06% of next year's budget expenditures which total \$47,225,412.

GENERAL FUND BUDGETARY HIGHLIGHTS

- The District's original budget for FY2014 was \$46,254,256 compared with \$45,587,662 in the prior year, and did not change during the current year. However, there were some changes reclassifying amounts between individual line items (Exhibit E).
- On a budgetary basis, for the general fund, actual revenues including transfers from fund balance exceeded actual expenditures by \$954,707 (Exhibit E) and \$1,273,883 for fiscal years 2014 and 2013 respectively. For fiscal year 2014, key contributors to the favorable budget variance were Medicaid and transportation receipts, which exceeded budget by \$88,735 and \$167,868, respectively.
- Actual total expenditures were less than budgeted expenditures by \$618,143 (Exhibit E) and \$871,754, for fiscal years 2014 and 2013 respectively.
- State payments on-behalf of the teacher retirement program were made directly by the Commonwealth for the benefit of District's teachers. For the current year these payments totaled \$5,912,420 (Exhibit D), compared with \$5,440,484 in the prior year.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - The District's investment in capital assets (net of accumulated depreciation) as of the end of the current fiscal year amounts to \$47,878,850 compared to \$49,603,990 at the end of the prior fiscal year. This investment in capital assets includes land, land improvements, buildings, etc. The changes in capital assets are shown below.

Description	Amount	
	2014	2013
Capital assets - beginning of the year	\$ 80,650,886	\$ 80,333,061
Less accumulated depreciation	(31,046,896)	(29,387,967)
Capital assets at the beginning of the year net of accumulated depreciation	49,603,990	50,945,094
Current year additions	51,060	457,045
Less current year depreciation - net	(1,776,200)	(1,798,149)
Total capital assets - net	<u>\$ 47,878,850</u>	<u>\$ 49,603,990</u>

Additional information on the District's capital assets can be found in Exhibit H - Note 4 of this report.

Debt – the District's debt and other obligations are summarized below.

Debt and other obligations		
Description	Amount	
	2014	2013
New school bonds payable	\$ 15,010,000	\$ 17,615,000
OPEB obligations	10,456,145	8,721,991
Compensated absences	1,705,310	1,673,831
Total debt and other obligations	<u>\$ 27,171,455</u>	<u>\$ 28,010,822</u>

Additional information on the District's debt and other obligations can be found in Exhibit H - Note 4 of this report.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Dudley-Charlton Regional School District continues to experience restrictive growth in revenues. While state revenue has risen in recent years, these funds have not been employed to increase local education budgets. State support as a percentage of the district's budget continues to decline. When this is combined with little or no increase in federal funding, the District has had to rely on its local towns, its Reserves and School Choice tuitions to support operations.

Charlton and Dudley have made good faith efforts to support education, however, they are still amongst the small number of cities and towns which have not met their targets to provide an appropriate level of school funding. This goal is defined by the Commonwealth of Massachusetts. The Towns' revenue growth has been limited by a slowdown in the residential real estate market and little or no increases in state-funded local aid. A recent positive development is Dudley's passage of a Proposition 2½ override which will provide approximately \$170,000 in additional aid to the District starting in fiscal 2016.

For several years, the Dudley-Charlton Regional School District has committed more than half of its Reserves to sustain operations. At the same time, School Choice tuition revenue has been utilized to fund teacher salaries and technology purchases. The District is aware that it must reduce its reliance on Reserves and School Choice revenues. It has sustained its strong educational reputation by shifting resources from one program of study to another, when appropriate, and by reducing non-education expenses. An example of its cost reduction techniques is its approach to electricity costs. The District continues to invest in energy conservation measures. In addition, it has entered into two 20-year financial arrangements to buy energy credits at a reduced cost. These net metering agreements will save the District \$1.2 million over the term of the contracts. The first of these agreements is expected to provide returns in the next fiscal year.

While health and safety measures are addressed immediately, it should be noted that the District has reduced or delayed many of its capital projects. Thus far, its efforts to secure funding from the Massachusetts School Building Authority to renovate the Shepherd Hill Regional High School have not been successful. This is a high priority for the District and is necessary to maintain its competitive edge in offering a quality educational experience to the children of Charlton and Dudley.

An exception to this trend is the District's construction of an artificial turf field and other field improvements at a cost of \$2.4 million. Local voters have approved a \$2.2 million debt exclusion issue. Two generous private donors have pledged \$1.1 million over the next 15 years to reduce the burden on the local taxpayer. Anticipated completion date is the spring of 2015. The District is hopeful that additional private donations will fund other capital needs and will continue to pursue State funding for these purposes.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the 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 Office, Dudley-Charlton Regional School District, 68 Dudley-Oxford Rd, Dudley, MA 01571.

Concluded

EXHIBIT A

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
 GOVERNMENT-WIDE
 STATEMENT OF NET POSITION
 JUNE 30, 2014

	Governmental Activities
Assets:	
Current assets:	
Cash	9,477,754
Due from other governments	2,800,262
Deposits and other receivables	980,586
Inventory	15,955
Total current assets	13,274,557
Noncurrent assets:	
Due from other governments - MSBA	8,098,226
Capital assets - net of accumulated depreciation	47,878,850
Total noncurrent assets	55,977,076
Total assets	69,251,633
Liabilities:	
Current liabilities:	
Accounts and other payables	1,460,728
Accrued interest payable	53,647
Accrued payroll	3,312,890
Withholdings and retiree payments	103,543
Accrued vacation and other benefits	390,596
Fees collected in advance	14,130
Bond anticipation note	150,000
Total current liabilities	5,485,534
Noncurrent liabilities:	
Due within one year - bonds payable	2,730,000
Due in more than one year:	
Bonds payable	12,280,000
Other post employment benefit obligations (OPEB)	10,456,145
Compensated absences	1,705,310
Total due in more than one year	24,441,455
Total liabilities	32,656,989
Net position:	
Invested in capital assets, net of related debt	32,868,850
Restricted for:	
Grant and revolving activity	12,450,252
Sewer use charges	37,522
Inventory	15,955
Capital projects	7,322
Total restricted	12,511,051
Unrestricted	(8,785,257)
Total net position	36,594,644

See accompanying notes to the basic financial statements.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Governmental Activities						Net Revenue/ (Expense) and Changes in Net Position
	Expenses for all Functions and Programs	Program Revenues					
		Operating Grants, Contributions and Aid	Capital Contributions	Member Town Assessments	Charges for Services	Other	
Administration	1,930,759	-	-	-	-	-	(1,930,759)
Regular instruction	20,437,401	1,378,386	-	-	10,868	43,018	(19,005,129)
Preschool and special education	9,572,104	1,571,120	-	-	67,840	-	(7,933,144)
Ancillary school services	2,038,333	421,341	-	-	920,337	29,089	(667,566)
Maintenance and operations	3,508,857	-	-	-	56,962	-	(3,451,895)
Insurance and employee benefits	25,101,676	5,912,420	-	-	9,924,921	15,774	(9,248,561)
Transportation	2,804,091	1,579,060	-	-	-	-	(1,225,031)
Sewer use charges	25,796	-	-	13,849	-	-	(11,947)
Unallocated depreciation (*)	1,631,703	-	-	-	-	-	(1,631,703)
Debt service - interest on long-term debt ..	916,044	-	635,376	1,084,126	-	-	803,458
Total activities	<u>67,966,764</u>	<u>10,862,327</u>	<u>635,376</u>	<u>1,097,975</u>	<u>10,980,928</u>	<u>87,881</u>	<u>(44,302,277)</u>
General revenues:							
Assessments to member towns						16,321,884	
Grants, contributions and aid not restricted to specific purposes						23,837,398	
Interest						18,600	
Charges for services						2,261	
Miscellaneous						79,923	
Total general revenues						<u>40,260,066</u>	
Changes in net position							(4,042,211)
Net position - beginning of the year							<u>40,636,855</u>
Net position - end of the year							<u><u>36,594,644</u></u>

(*) Total depreciation expense was \$1,776,200; \$144,497 was allocated to various cost centers and the balance of \$1,631,703 was unallocated.

See accompanying notes to the basic financial statements.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014

	General	Health Insurance	Other Nonmajor Governmental	Total Governmental Funds
Assets:				
Pooled cash	7,617,065	121,093	1,739,596	9,477,754
Due from MSBA	10,446,963	-	-	10,446,963
Due from other governments	-	-	428,435	428,435
Deposits and other receivables	13,628	966,958	-	980,586
Inventory	-	-	15,955	15,955
Total assets	18,077,656	1,088,051	2,183,986	21,349,693
Liabilities, deferred inflow of resources, and fund balance				
Liabilities:				
Accounts payable and other liabilities	667,763	792,965	-	1,460,728
Accrued payroll	3,312,890	-	-	3,312,890
Withholdings and retiree payments	5,634	97,909	-	103,543
Accrued vacation and other benefits	390,596	-	-	390,596
Fees collected in advance	-	-	14,130	14,130
Bond anticipation note	-	-	150,000	150,000
Total liabilities	4,376,883	890,874	164,130	5,431,887
Deferred inflow of resources - unavailable revenues	10,446,963	-	-	10,446,963
Fund balance:				
Nonspendable	-	-	15,955	15,955
Spendable:				
Restricted	-	-	2,017,721	2,017,721
Committed	37,522	197,177	7,322	242,021
Assigned	1,300,000	-	-	1,300,000
Unassigned - available for appropriation	1,916,288	-	(21,142)	1,895,146
Total fund balances	3,253,810	197,177	2,019,856	5,470,843
Total liabilities, deferred inflow of resources, and fund balances	18,077,656	1,088,051	2,183,986	

Reconciliation of fund balances to government-wide statement of net position.

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds statement. The details of this difference are as follows.

Capital assets	80,599,694	
Accumulated depreciation	(32,720,844)	
Net adjustment to increase the fund balance of the governmental funds		47,878,850

Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the governmental funds statement.

The details of this difference are as follows.

Bonds payable	(15,010,000)	
OPEB obligations	(10,456,145)	
Compensated absences	(1,705,310)	
Net adjustment to decrease the fund balance of the governmental funds		(27,171,455)

Accrued interest payable is not recognized as an expenditure and therefore is not reported in the governmental funds statements

(53,647)

Unearned revenue associated with receivable from MSBA for reimbursement of bond principal

10,446,963

Accrued interest receivable from MSBA

23,090

Net position (Exhibit A)

36,594,644

See accompanying notes to the basic financial statements.

DUDLEY-CHARLTON REGIONAL SCHOOL
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	General	Health Insurance	State Payment On-behalf of Teacher Retirement Fund	Other Nonmajor Governmental	Total Governmental Funds
Revenues:					
Town assessments	17,419,859	-	-	-	17,419,859
Intergovernmental	27,845,016	-	5,912,420	3,370,847	37,128,283
District contributions	-	4,792,199	-	-	4,792,199
Employee and retiree contributions	-	1,799,297	-	-	1,799,297
Insurance recoveries and refunds	-	3,331,940	-	-	3,331,940
Fees and charges for services	2,261	1,485	-	1,056,007	1,059,753
Interest	18,600	-	-	-	18,600
Other	53,770	15,774	-	98,260	167,804
Total revenues	45,339,506	9,940,695	5,912,420	4,525,114	65,717,735
Expenditures:					
Administration & district wide costs	1,916,526	-	-	-	1,916,526
Regular instruction	18,469,163	-	-	1,949,881	20,419,044
Preschool and special education	7,794,376	-	-	1,773,793	9,568,169
Ancillary school services	690,279	-	-	1,274,289	1,964,568
Maintenance and operations	3,415,781	-	-	31,155	3,446,936
Insurance and employee benefits	6,993,570	10,461,532	5,912,420	-	23,367,522
Transportation	2,804,091	-	-	-	2,804,091
Asset acquisition	-	-	-	47,295	47,295
Sewer use charges	25,796	-	-	-	25,796
Debt service - principal	2,605,000	-	-	-	2,605,000
Debt service - interest	921,531	-	-	-	921,531
Total expenditures	45,636,113	10,461,532	5,912,420	5,076,413	67,086,478
Net changes in fund balance	(296,607)	(520,837)	-	(551,299)	(1,368,743)
Fund balance - beginning of year	3,550,417	718,014	-	2,571,155	
Fund balance - end of year	3,253,810	197,177	-	2,019,856	

Reconciliation of the net changes in fund balances for the governmental funds and the change in net position as reported in the government-wide statement of activities

(See Exhibit H - Note 2)

Capital outlays net of depreciation expense and disposals	(1,725,140)
Net change in certain accrued receivables	(1,793,182)
Net change in certain accrued liabilities including debt	844,854
Change in net position of the government-wide statement of activities (Exhibit B)	(4,042,211)

See accompanying notes to the basic financial statements.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2014

	Budget			Actual General Fund	Over / (Under) Budget
	Original	Transfers	Adjusted		
<u>Revenues</u>					
Town assessments:					
Operating assessments:					
Dudley	5,936,597	-	5,936,597	5,936,597	-
Charlton	10,371,438	-	10,371,438	10,371,438	-
Capital assessments:					
Dudley	615,964	-	615,964	615,964	-
Charlton	482,011	-	482,011	482,011	-
Sewer assessments:					
Dudley	4,134	-	4,134	4,134	-
Charlton	9,715	-	9,715	9,715	-
Total Town Assessments	17,419,859	-	17,419,859	17,419,859	-
State:					
Chapter 70 - school aid	23,744,648	-	23,744,648	23,744,648	-
MSBA reimbursement	2,428,557	-	2,428,557	2,428,558	1
Transportation	1,411,192	-	1,411,192	1,579,060	167,868
Medicaid reimbursements	-	-	-	88,735	88,735
Charter school reimbursements	-	-	-	4,015	4,015
Total State	27,584,397	-	27,584,397	27,845,016	260,619
Local:					
Interest	-	-	-	18,600	18,600
Facility rentals	-	-	-	2,261	2,261
Miscellaneous and refunds	-	-	-	53,770	53,770
Total Local	-	-	-	74,631	74,631
Total revenues	45,004,256	-	45,004,256	45,339,506	335,250
Other financing sources:					
Transfers from fund balance:					
Reserve to reduce assessments	1,250,000	-	1,250,000	1,250,000	-
Reserve for sewer assessments	-	-	-	1,314	1,314
Total revenues and other financing sources	46,254,256	-	46,254,256	46,590,820	336,564
<u>Expenditures</u>					
Operating:					
District wide	14,149,253	-	14,149,253	13,863,216	(286,037)
Mason road school	2,033,412	25,000	2,058,412	2,033,012	(25,400)
Dudley elementary school	2,693,556	26,200	2,719,756	2,680,821	(38,935)
Charlton elementary school	3,164,890	-	3,164,890	3,063,531	(101,359)
Heritage school	3,577,416	(60,000)	3,517,416	3,505,118	(12,298)
Shepherd hill regional high school	7,335,605	105,000	7,440,605	7,385,610	(54,995)
Charlton middle school	5,370,688	(96,200)	5,274,488	5,244,810	(29,678)
Dudley middle school	4,375,204	-	4,375,204	4,307,668	(67,536)
Total Operating	42,700,024	-	42,700,024	42,083,786	(616,238)
Capital:					
Sewer use charges	27,700	-	27,700	25,796	(1,904)
Debt service	3,526,532	-	3,526,532	3,526,531	(1)
Total Capital	3,554,232	-	3,554,232	3,552,327	(1,905)
Total expenditures	46,254,256	-	46,254,256	45,636,113	(618,143)
Net changes in fund balances	-	-	-	954,707	954,707
<u>Reconciliation of GAAP basis to budgetary basis:</u>					
	Revenues	Other Financing Sources	Expenditures	Net Change Fund Balance	
Reported on GAAP basis (Exhibit D) general fund	45,339,506	-	45,636,113	(296,607)	
Transfers from fund balance	-	1,251,314	-	1,251,314	
Reported on budgetary basis (Exhibit E)	45,339,506	1,251,314	45,636,113	954,707	

See accompanying notes to the basic financial statements.

EXHIBIT F

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2014

	Private- Purpose Trust Funds	Agency Funds	Total
Assets:			
Pooled cash.	48,745	224,353	273,098
Liabilities:			
Payroll withholdings.	-	7,431	7,431
Due to students groups	-	216,922	216,922
Total liabilities.	-	224,353	224,353
Net position:			
Reserved for trust funds	48,745	-	48,745

See accompanying notes to the basic financial statements.



EXHIBIT G

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	Private- Purpose Trust Funds
High school scholarship funds:	
Revenues:	
Contributions and interest.	10,586
Expenditures:	
Scholarships.	2,935
Changes in net position	7,651
Net position:	
Beginning of year.	41,094
End of year.	48,745

See accompanying notes to the basic financial statements.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Reporting entity**

The Dudley-Charlton Regional School District (the District) operates under a regional agreement established in 1971. The District, comprised of the Towns of Dudley and Charlton, serves the educational needs of students in grades pre-K through 12.

The form of government is an elected seven-member school committee, which is responsible for appointing a Superintendent who is the chief operating official for the District.

The District operates seven schools located in the towns of Dudley and Charlton, Massachusetts. The District apportions its operating and capital costs, to its member towns based upon State law, student enrollment and the regional agreement.

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

As required by generally accepted accounting principles, these financial statements present the District and its component units, entities for which the District is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit (if any), on the other hand, is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the District. Any blended or discretely presented component unit present has a June 30 year-end. Based upon the foregoing criteria, the District has no component units that would require either blended or discrete presentation in these basic financial statements.

B. Joint Venture – Southern Worcester Educational Collaborative

The District is a member of the Southern Worcester Educational Collaborative (the "Collaborative"). The Collaborative provides various educational programs and transportation to its members which would not be feasible for individual school systems to provide. The District incurred \$1,947,726 of expenditures associated with services provided by the Collaborative in the current fiscal year.

The Collaborative is separately governed and issues its own financial statements which are available from the Collaborative's business office.

C. Basis of presentationGovernment-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units (if any). For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by assessments and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District does not have, and therefore does not report, any business-type activities.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**C. Basis of presentation (continued)**Government-wide financial statements (continued)

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund financial statements

Fund financial statements of the District are organized into funds each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures.

Funds are organized as major fund or non-major funds within the governmental statements because emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the District or if it meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, etc.) for all funds of that category or type (that is, total governmental or total enterprise funds), and
- b. The same element that met the 10 percent total in (a), is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

In addition, any other governmental or enterprise fund (if any) that the District believes is particularly important to financial statement users may be reported as a major fund.

Governmental activities

Governmental funds are identified as general, special revenue, capital projects or debt service funds based upon the following guidelines.

General fund – is the general operating fund of the District and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of presentation (continued)

Governmental activities (continued)

Special revenue funds – are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Capital project funds – are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by trust funds).

Health insurance fund – is used to account for health insurance provided to the District's employees and retirees who elect coverage under certain Blue Cross plans.

Fiduciary funds (not included in government-wide statements)

Fiduciary funds are identified as either private-purpose trust funds or agency funds based upon the following guidelines.

Private-purpose trust funds – are used to account for resources legally held in trust for scholarship payments.

Agency funds – are used to account for assets held by the District as an agent for individuals, private organizations, and/or other governmental units.

Major Funds

The District reports the following major governmental funds.

- General fund
- Health insurance fund
- State payment on-behalf of teacher retirement fund

Nonmajor funds

The District reports the following nonmajor funds.

- Special revenue funds:
 - Revolving funds
 - All federal, state, and other grant funds
- Capital project funds
- All activities

Fiduciary funds

The District reports the following fiduciary funds.

- Private-purpose trust funds:
 - Scholarship trust funds
- Agency funds:
 - Student activities funds

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of accounting

Government-wide financial statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or an economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided including specific member town assessments, 2) operating grants and contributions, and 3) capital grants and contributions. Revenues not classified as program revenues (e.g. general member town assessments) are presented as general revenues.

When both restricted and unrestricted resources are available for use, except in the case of debt service, it is the District's policy to generally use restricted resources first, then unrestricted resources as they are needed.

Fund financial statements

Financial statements for governmental fund types are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The annual assessments to the District's member towns for operating and capital costs, state aid, various inter-governmental revenues, tuition fees, and interest income as earned, comprise the significant revenues susceptible to accrual. Contributions, gifts, and other miscellaneous revenues are recorded as revenues when received because they are generally not both measurable and available until actually received.

Federal and state grants and other entitlements are recognized as revenue in the period the District is entitled to the resources and the amounts are available. Expenditure-driven programs currently reimbursable are recognized as revenue when the qualifying expenditures have been incurred and the amounts are available. Amounts owed to the District which are not available are recorded as receivables and unearned revenue. Amounts received prior to the entitlement period are also recorded as unearned revenue.

Fiduciary fund financial statements use the accrual method of accounting.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of accounting (continued)

Measurement focus

The government-wide financial statements for governmental activities and the fund financial statements for the fiduciary funds are presented using the economic resources measurement focus. Under this concept, revenues and expenses are matched using the accrual basis of accounting.

The measurement focus of all governmental funds is the flow of current financial resources concept. Under this concept, sources and uses of financial resources, including capital outlays, debt proceeds and debt retirements are reflected in operations. Resources not available to finance expenditures and commitments of the current period are recognized as unearned revenue or a reservation of fund equity. Liabilities for claims, judgments, compensated absences and pension contributions, which will not be currently liquidated using expendable available financial resources, are included as liabilities in the government-wide financial statements but are excluded from the governmental fund financial statements. The related expenditures are recognized in the governmental fund financial statements when the liabilities are liquidated.

E. Assets, liabilities, and net position or equity

1. Deposits and investments

Generally, the District's Treasurer is authorized to invest in the following investments: term deposits or certificates of deposit, trust companies, national banks, savings banks or banking companies, or obligations issued or unconditionally guaranteed by the United States government or an agency thereof and having a maturity from date of purchase of one year or less, with certain other limitations.

2. Receivables and payables

Receivables from and payables to other governments (i.e., the Commonwealth of Massachusetts and its political subdivisions) are reported as "due from other governments" and "due to other governments", respectively.

3. Inventories and prepaid assets

Inventories, if any, are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors, if any, that reflects costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital assets

Fund financial statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed asset are not capitalized and related depreciation is not reported in the fund financial statements.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, liabilities, and net position or equity (continued)

4. Capital assets (continued)

Government-wide financial statements

Capital assets, which include construction in progress, buildings, machinery and equipment, computers, and vehicles, are reported in the applicable governmental or business type activities (if any) columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Significant donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements, for which the District has title are capitalized as projects are constructed.

Property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	50
Land improvements	20
Machinery and equipment . . .	5 - 15
Computer equipment	3 - 10
Vehicles	8

5. Long-term obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are unearned 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. Bond issuance costs are reported as unearned charges and amortized over the term of the related debt.

In the fund financial statements governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Compensated absences

The District records a liability for compensated absences related to the buyback of unused sick days and earned vacation days.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, liabilities, and net position or equity (continued)

6. Compensated absences (continued)

It is the District's policy to permit employees to accumulate unused sick days in accordance with a labor agreement with the teachers and wages and benefits schedules for other employees. With the exception of teachers, unused sick days are forfeited. Upon retirement, teachers who have accumulated sick days can buy back these days at a reduced rate. The liability for the buyback of sick days is reported in the financial statements as described below.

- For employees who retire by the end of the fiscal year and are paid in the subsequent fiscal year, the liability related to the buyback of sick days is reported as a current liability in both the governmental and government-wide financial statements.
- For the remaining employees, the liability for the buyback of sick days is reported as a non current liability in the government-wide financial statements.

Employees earn vacation days based upon the number of fiscal years of service they worked prior to the start of the current fiscal year (e.g. if an employee had worked for the District for one year as of June 30, 2014, that employee may be eligible to receive two weeks of paid vacation during the next fiscal year (FY2015). With only a few exceptions for key administrators, vacation time must be taken during the year it is credited. Vacation time which is earned and not taken is not permitted to be carried forward to the next fiscal year. The District records the liability for vacation pay as a current liability in both the governmental and government-wide financial statements

7. Economic dependency

The District provides education to the children of the Towns Dudley and Charlton. It receives a substantial portion of its revenues from these towns, as well as from the Commonwealth of Massachusetts, and as such, is dependent on the economic environment of these towns and the Commonwealth.

8. Fund equity

Government-wide financial statements

Equity is classified as net position and displayed in three components:

1. Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt.
2. Restricted net position – consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
3. Unrestricted net position – consists of all other net positions that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, liabilities, and net position or equity (continued)

8. Fund equity (continued)

Fund financial statements

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventory; or (b) legally or contractually required to be maintained intact:

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, and contributors, of laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the District's school committee – the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school committee removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the District's "intent" to be used for specific purposes, but are neither restricted nor committed. The District's assistant superintendent for business has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the general fund. It is also used to report negative fund balances in other funds.

When both restricted and unrestricted fund balances are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

9. Use of estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Specifically, regarding compensated absences, the OPEB (other post-employment benefits) obligations, and the useful lives of fixed assets. Actual results may differ from those estimates.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2014

2. RECONCILIATION OF GOVERNMENT-WIDE AND GOVERNMENTAL FUND FINANCIAL STATEMENTS

The reconciliation between net changes in fund balances reported in the governmental funds statement of revenues, expenditures, and changes in fund balances (Exhibit D) and the change in net position of the government-wide statement of activities (Exhibit B) is explained below.

Net changes in fund balances - total governmental funds (Exhibit D) \$ (1,368,743)

Amounts reported for governmental activities in the government-wide statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.

The components of this reconciling item are:

	<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>Net Change</u>	
Capital assets	\$ 80,650,886	\$ 80,599,694	\$ (51,192)	
Accumulated depreciation	(31,046,896)	(32,720,844)	<u>(1,673,948)</u>	
Total				(1,725,140)

The following are changes in the balance of accounts receivable from the beginning to the end of the year in the government-wide financial statements that do not affect revenues in the governmental funds financial statement.

	<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>Net Change</u>	
Receivable from MSBA net of the reimbursement for interest costs	\$ 12,238,283	\$ 10,446,963	\$ (1,791,320)	
Accrued interest receivable	24,952	23,090	<u>(1,862)</u>	
Total				(1,793,182)

The following are changes in the balance of accrued liabilities from the beginning to the end of the year in the government-wide financial statements that do not affect expenditures in the governmental funds financial statement.

	<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>Net Change</u>	
Bonds payable	\$ (17,615,000)	\$ (15,010,000)	\$ 2,605,000	
OPEB obligations	(8,721,991)	(10,456,145)	(1,734,154)	
Accrual for long-term portion of compensated absences	(1,673,831)	(1,705,310)	(31,479)	
Accrual for interest payable on debt	(59,134)	(53,647)	<u>5,487</u>	
Total				<u>844,854</u>

Change in net position of the government-wide statement of activities (Exhibit B) \$ (4,042,211)

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The annual budget for the general fund is adopted on a basis consistent with generally accepted accounting principles except that encumbrances are recognized as expenditures. All annual appropriations lapse at fiscal year end. Capital project and certain special revenue funds adopt project-length and grant-length budgets, respectively. The District does not adopt an annual budget for the Health Insurance Fund.

The School Committee authorizes capital project funds' expenditures. Capital appropriations do not lapse until the purpose for which they are designated is completed. Expenditures in excess of adopted budgets can be made only upon the authority of a supplemental appropriation or an approved budgetary transfer.

The District follows these procedures, in establishing the budgetary data for the general fund.

- A proposed annual budget, including capital costs, is prepared by the Superintendent for adoption by the School Committee. The annual budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted in the District to obtain taxpayer comments from the member towns.
- In accordance with the District Agreement, the School Committee adopts a final budget no later than 45 days prior to the earliest scheduled town meeting.
- The final budget, divided between operating costs and capital costs, is then apportioned among the member towns based upon state mandated minimum contribution requirements and various student enrollment data. The apportioned amount for each member town must be certified by the District's Treasurer to each of the Treasurers of the member towns within 30 days from the date on which the annual budget was adopted by the School Committee.
- Each member town includes its share of the regional school assessment with all other proposed appropriations for town meeting approval.
- The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the total annual budget.

Both operating and capital assessments are levied annually against the member towns of the District for the fiscal year beginning July 1, and are due and payable in six installments as follows: 15% by August 10, 30% by September 10, 50% by November 10, 70% by February 10, 90% by April 10, and 100% by May 10.

Capital costs, as defined in the District's Regional Agreement, generally relate to costs incurred to construct or improve school plant operations. The Regional Agreement also requires that the costs for sewer usage be assessed separately and thus are included as part of the annual capital assessment. If debt was incurred to pay for these costs, capital costs will include payment for principal and interest on such debt. Debt, sewer usage charges and capital costs are assessed to member towns based on their student enrollment as of October 1st of the preceding fiscal year.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2014

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

A. Budgetary information (continued)

Operating costs include all other expenses not listed as capital costs, as well as interest on temporary notes issued by the District in anticipation of revenue. Current year's operating costs are apportioned to member towns on the basis of their student enrollment as of October 1st of the preceding fiscal year, in conjunction with the minimum contribution requirement dictated by the Education Reform Act.

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the formal budgetary process. Encumbrances outstanding at year-end represent the estimated amount of expenditures ultimately to result if outstanding purchase orders at year-end are filled and if contracts in progress at year-end are completed. For GAAP purposes, encumbrances outstanding at year-end do not constitute expenditures or liabilities and, therefore, are presented in the combined financial statements as a component of assigned fund equity. As of June 30, 2014, the general fund had no outstanding encumbrances.

B. Excess of expenditures over appropriations

During the current fiscal year, the District's total general fund expenditures did not exceed appropriations.

C. Fund Deficit

At June 30, 2014 the District's athletic field renovation capital project fund has a deficit balance of \$21,142. This deficit will be eliminated in future years with the issuance of bonds.

4. DETAILED NOTES ON ALL FUNDS

A. Pooled cash

The District has a central treasury function controlled by the District's Treasurer. Therefore, there is one "pool" of cash, composed of various bank accounts (rather than separate cash accounts for each fund). Each fund reports the amount due from or to the central treasury as "pooled cash".

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District tries to limit its custodial risk by depositing cash in various banks. The District has no formal policy mitigating the effects of credit or interest rate risk. The pooled cash is summarized below.

	Governmental Funds (Exhibit A & C)	Fiduciary Funds (Exhibit F)	Totals
Insured (FDIC & other)	\$ 750,000	\$ 328,481	\$ 1,078,481
Remaining balance	9,567,872	61,327	9,629,199
Total deposits	10,317,872	389,808	10,707,680
Various reconciling items	(840,118)	(116,710)	(956,828)
Total pooled cash.	<u>\$ 9,477,754</u>	<u>\$ 273,098</u>	<u>\$ 9,750,852</u>

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2014

4. DETAILED NOTES ON ALL FUNDS (continued)

B. Receivables and deposits

Receivables and deposits as of the end of the fiscal year were as follows:

	Financial Statements (Exhibit C)	Financial Statements (Exhibit A)
Due from other governments:		
Commonwealth of Massachusetts:		
MSBA reimbursement for:		
Bond principal	\$ 10,446,963	\$ 10,446,963
Bond interest due currently	-	23,090
Various grants and reimbursements	428,435	428,435
Total due from other governments	<u>\$ 10,875,398</u>	<u>\$ 10,898,488</u>
Deposits and other receivables:		
Flexible spending account	\$ 11,376	\$ 11,376
Insurance claims receivable for health care expenses	691,958	691,958
Health care expenses and employee benefits	275,000	275,000
Other	2,252	2,252
Total deposits and other receivables	<u>\$ 980,586</u>	<u>\$ 980,586</u>

C. Capital assets

Asset recognition

The District's capital asset activity for the year ended June 30, 2014 is listed below.

Description	Capital Assets			Accumulated Depreciation			Net Book Value
	Beginning Balance	Net Change	Ending Balance	Beginning Balance	Net Change	Ending Balance	
Capital assets, not being depreciated:							
Land	\$ 500,000	\$ -	\$ 500,000	\$ -	\$ -	\$ -	\$ 500,000
Capital assets, being depreciated:							
Land improvements	1,919,321	(50,500)	1,868,821	(1,102,607)	(26,359)	(1,128,966)	739,855
Buildings	75,589,198	-	75,589,198	(27,867,847)	(1,547,572)	(29,415,419)	46,173,779
Machinery and equipment	2,469,215	(692)	2,468,523	(1,952,584)	(86,393)	(2,038,977)	429,546
Vehicles	173,152	-	173,152	(123,858)	(13,624)	(137,482)	35,670
Total	<u>\$ 80,650,886</u>	<u>\$ (51,192)</u>	<u>\$ 80,599,694</u>	<u>\$ (31,046,896)</u>	<u>\$ (1,673,948)</u>	<u>\$ (32,720,844)</u>	<u>\$ 47,878,850</u>

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

4. DETAILED NOTES ON ALL FUNDS (continued)**C. Capital assets (continued)**

The following is an analysis of the net change in capital assets and accumulated depreciation.

Description	Capital Assets			Accumulated Depreciation		
	Additions	Reclass- ifications and Deletions	Net Change	Current Year Depreciation	Reclass- ifications and Deletions	Net Change
Land improvements	\$ -	\$ (50,500)	\$ (50,500)	\$ (76,859)	\$ 50,500	\$ (26,359)
Buildings	-	-	-	(1,547,572)	-	(1,547,572)
Machinery and equipment	51,060	(51,752)	(692)	(138,145)	51,752	(86,393)
Vehicles	-	-	-	(13,624)	-	(13,624)
Total	\$ 51,060	\$ (102,252)	\$ (51,192)	\$ (1,776,200)	\$ 102,252	\$ (1,673,948)

Depreciation expense, net of reclassifications and deletions, for the fiscal year ended June 30, 2014, was allocated as follows:

Administration	\$ 10,298
Regular instruction	53,677
Ancillary school services	69,830
Maintenance and operations	10,692
Unallocated depreciation	1,631,703
Total	\$ 1,776,200

D. Long-term liabilitiesChanges in long-term liabilities

Long-term liability activity for the year ended June 30, 2014 is presented below.

Description	Date Issued	Maturity Date	Original Amount	Beginning Balance	Increases	Reductions	Ending Balance	Interest
Long-term debt								
New school series A	May-99	Jun-18	\$ 41,415,000	\$ 14,330,000	\$ -	\$ (2,605,000)	\$ 11,725,000	\$ 749,068
New school series B	May-99	May-19	\$ 3,285,000	3,285,000	-	-	3,285,000	172,463
Total long-term debt				17,615,000	-	(2,605,000)	15,010,000	921,531
Compensated absences				1,673,831	31,479	-	1,705,310	-
OPEB obligations				8,721,991	1,734,154	-	10,456,145	-
Total long-term liabilities				\$ 28,010,822	\$ 1,765,633	\$ (2,605,000)	\$ 27,171,455	\$ 921,531

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

4. DETAILED NOTES ON ALL FUNDS (continued)

D. Long-term liabilities (continued)

As in prior years, the assets of the general fund were used in fiscal 2014 to pay current compensated absence obligations.

Long-term debt reported in the government-wide financial statements as of the end of the fiscal year was as follows.

Description	Due Within One Year	Due After One Year	Total
Long-term debt			
New school series A. . . .	\$ 2,730,000	\$ 8,995,000	\$ 11,725,000
New school series B. . . .	-	3,285,000	3,285,000
Total long-term debt. . . .	\$ 2,730,000	\$ 12,280,000	\$ 15,010,000

Future debt service payments

The following is a schedule of long-term debt maturities and interest payments as of June 30, 2014.

Fiscal Year	Debt Service			Anticipated State	District
	Principal	Interest	Total	Reimbursement	Share
2015	\$ 2,730,000	\$ 788,025	\$ 3,518,025	\$ 2,428,557	\$ 1,089,468
2016	2,865,000	644,700	3,509,700	2,428,557	1,081,143
2017	2,995,000	494,288	3,489,288	2,428,557	1,060,731
2018	3,135,000	337,050	3,472,050	2,428,557	1,043,493
2019	3,285,000	172,462	3,457,462	2,428,557	1,028,905
Total	\$ 15,010,000	\$ 2,436,525	\$ 17,446,525	\$ 12,142,785	\$ 5,303,740

(*) Anticipated state reimbursement (due from MSBA) is based on the results of final audits of the eligible costs for all of the District's construction projects.

The anticipated state reimbursement for principal and interest is as follows:

	Anticipated State Reimbursement
Principal. . . .	\$ 10,446,963
Interest.	1,695,822
Total.	\$ 12,142,785

E. Short-term debt

To finance the renovation of the high school athletic field, the District issued the following bond anticipation note.

Description	Date Issued	Maturity Date	Original Amount	Beginning Balance	Increases	Reductions	Ending Balance	Interest
Short-term debt								
Bond anticipation note. . .	May-14	Apr-15	\$ 150,000	\$ -	\$ 150,000	\$ -	\$ 150,000	\$ -

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2014

4. DETAILED NOTES ON ALL FUNDS (continued)

F. Deferred Inflow of Resources

In fiscal year 2001 the District retroactively adopted the provisions of GASB Pronouncement #33 "Accounting and Financial Reporting for Nonexchange Transactions". This pronouncement allows future state reimbursements for the payment of debt principal to be recognized as a receivable offset by deferred inflow of resources in the general fund.

Deferred inflow of resources as of June 30, 2014 is listed below.

Description	(Exhibit C)
<u>General Fund:</u>	
Reimbursement from the Massachusetts School Building Authority	<u>\$ 10,446,963</u>

G. Net position

A reconciliation between the fund balances reported in the governmental funds balance sheet (Exhibit C) and the net position in the government-wide statement of net position (Exhibit A) is presented below.

	(Exhibit C)	Net Position (Exhibit A)		
	Fund Balances	Invested in capital assets net of debt	Restricted	Unrestricted
General fund:				
Unassigned-available for appropriation	\$ 1,916,288	\$ -	\$ -	\$ 1,916,288
Spendable - committed	37,522	-	-	37,522
Spendable - assigned	1,300,000	-	-	1,300,000
Insurance fund:				
Spendable - committed	197,177	-	-	197,177
Other nonmajor funds:				
Nonspendable	15,955	-	15,955	-
Spendable - restricted	2,017,721	-	2,017,721	-
Spendable - committed	7,322	-	7,322	-
Unassigned-available for appropriation	(21,142)	-	-	(21,142)
Subtotal	<u>5,470,843</u>	-	<u>2,040,998</u>	<u>3,429,845</u>
Adjustments required by GASB #34:				
Capital assets	-	80,599,694	-	-
Accumulated depreciation	-	(32,720,844)	-	-
Outstanding debt associated with capital assets	-	(15,010,000)	-	-
MSBA receivable for principal	-	-	10,446,963	-
MSBA receivable for interest (current portion)	-	-	23,090	-
OPEB obligations	-	-	-	(10,456,145)
Compensated absences	-	-	-	(1,705,310)
Accrued interest	-	-	-	(53,647)
Total	<u>\$ 5,470,843</u>	<u>\$ 32,868,850</u>	<u>\$ 12,511,051</u>	<u>\$ (8,785,257)</u>

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

4. DETAILED NOTES ON ALL FUNDS (continued)

H. Governmental fund balances

The following is a summary of the District's governmental funds' fund balances (Exhibit C) at year-end.

Description	General Fund	Health Insurance Fund	Other Nonmajor Funds	Total
Nonspendable - inventory.	\$ -	\$ -	\$ 15,955	\$ 15,955
Restricted for:				
Regular instruction.	-	-	1,072,024	1,072,024
Preschool and special education	-	-	598,203	598,203
Ancillary school services.	-	-	265,656	265,656
Maintenance and operations.	-	-	81,838	81,838
Total restricted.	-	-	2,017,721	2,017,721
Committed for:				
Sewer use charges.	37,522	-	-	37,522
Insurance and employee benefits.	-	197,177	-	197,177
Capital improvements.	-	-	7,322	7,322
Total committed.	37,522	197,177	7,322	242,021
Assigned for:				
Reduction of subsequent year's operating assessments.	1,300,000	-	-	1,300,000
Unassigned - available for appropriations.	1,916,288	-	(21,142)	1,895,146
Total fund balances.	\$ 3,253,810	\$ 197,177	\$ 2,019,856	\$ 5,470,843

5. OTHER INFORMATION

A. Risk management

Commercial liability insurance

The District is exposed to various risks of loss relating to torts; theft or damage of, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has obtained a variety of commercial liability insurance policies which passes the risk of loss listed above to independent third parties. Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2014

5. OTHER INFORMATION (continued)

A. Risk management (continued)

Risks retained by the District

The District has established a health insurance fund (accounted for as a special revenue revolving account) to account for and finance its uninsured risk of health claims for certain of its employees. The District has contracted with Blue Cross Blue Shield of Massachusetts and Fallon to administer all claims for health care. Under this program, the fund provides coverage for up to an annual maximum of \$100,000 for health claims relating to each plan participant. The District has purchased commercial insurance for claims in excess of this amount. The District and employees share in funding of the health insurance trust fund through payments based on estimates of the amounts needed to pay prior and current year claims and to establish a fund for catastrophic losses. The District is reimbursed for excess insurance claims under its various stop loss insurance plans.

Claims under the plan for services incurred during the fiscal year but not yet paid are recognized as expenditures in the fiscal year they occurred and a liability for these claims is recognized as of the end of the fiscal year. At June 30, 2014, the amount of this liability was \$792,965.

Changes in the reported liability for claims for the past three fiscal years were as follows.

	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2012</u>
Liability for claims liability beginning of fiscal year.	\$ 541,211	\$ 370,773	\$ 379,191
Current year claims and expenses.	10,461,532	7,436,544	7,652,098
Reversal of liability at beginning of year.	(541,211)	(370,773)	(379,191)
Current year payment for claims and expenses.	<u>(9,668,567)</u>	<u>(6,895,333)</u>	<u>(7,281,325)</u>
Liability for claims end of fiscal year.	<u>\$ 792,965</u>	<u>\$ 541,211</u>	<u>\$ 370,773</u>

B. Contingent liabilities

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

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

5. OTHER INFORMATION (continued)

C. Employee retirement systems and pension plans

Pensions for employees other than school department teaching staff are provided through a contributory retirement system under the Massachusetts Contributory Retirement Law, which is governed by Chapter 32 of the Massachusetts General Laws. Both employer and employee contributions are actuarially determined as directed by the State Division of Insurance. Required contribution rates for employees range from 5% to 9% of wages based upon their date of hire. Employees hired after December 31, 1978 and before June 30, 2001, make an additional 2% contribution applied to wages in excess of \$30,000.

The Worcester Regional Retirement Board administers this defined benefit, multi-employer plan, which provides retirement, survivor, disability and accident benefits. The Plan issues stand alone financial statements that can be obtained by writing the Worcester Regional Retirement Board, 23 Midstate Drive Suite 106, Auburn, Massachusetts 01501.

For fiscal 2014, the Board required the District to contribute 1.7% of the \$37,510,266 overall amount required to be paid by all employers participating in the plan. Payments for the District's share of pension costs were \$640,084, \$677,687 and \$671,497 for fiscal years 2014, 2013 and 2012, respectively.

The teaching staff contributes to the Massachusetts Teachers' Retirement System administered by the Massachusetts Teachers Retirement Board. The District's only contributions to this plan are through deductions from certain federal grants; however, the State contributed \$5,912,420 into the System for the benefit of the District's employees. The District reports these "on-behalf" contributions as both revenues and expenditures in a special revenue revolving fund, which is considered to be a major fund for financial reporting purposes.

Both retirement systems are contributory, multi-employer, defined benefit plans. Membership in the plans is mandatory immediately upon the commencement of employment for all permanent full-time employees.

D. Other post employment benefits

The District prospectively adopted and implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions, required for fiscal periods beginning after December 15, 2007, in fiscal 2009. This statement addresses how governments should account for and report their costs and obligations related to post employment healthcare and other nonpension benefits.

Plan Description. The District presently provides life, dental and health insurance benefits for active and retired employees and their covered dependents. Health insurance benefits provided to active employees and to pre-Medicare retirees are self insured while health insurance benefits provided to Medicare retirees are fully insured. Life and dental insurance are fully insured.

Coverage. Active employees and pre-Medicare retirees have a choice among Blue Cross and Fallon plans. For life insurance, the only option for retirees is \$5,000 of coverage. As required by Massachusetts law, pre-Medicare retirees have the same benefit options as active employees.

Eligibility. Retirees are eligible at age 55 with at least 10 years of creditable service. Retirees with at least 20 years of creditable service are eligible at any age.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2014

5. OTHER INFORMATION (continued)

D. Other post employment benefits (continued)

Cost Sharing. The District is responsible for 50% of the premiums for retirees and 75% of the premiums for employees.

Funding Policy. The required contribution is based on projected pay-as-you-go financing requirements.

Spouse Coverages. Spouses are covered under the plan.

Surviving Spouse Benefits. Surviving spouse benefits are covered under the plan until the surviving spouse remarries.

Annual OPEB Cost and Net OPEB Obligation. For the fiscal year ended June 30, 2014.

Description	Amount
Normal Cost (Service Cost)	\$ 1,016,192
Amortization of Unfunded Accrued Liability	1,748,228
Annual Required Contribution (ARC)	2,764,420
Interest on Net OPEB Obligation	261,660
Adjustment to ARC	(486,297)
Annual OPEB Cost (Expense)	2,539,783
Expected Contributions During the Year	805,629
Increase in Net OPEB Obligation	1,734,154
Net OPEB Obligation - Beginning of the Year	8,721,991
Net OPEB Obligation - End of the Year (Exhibit A)	<u>\$ 10,456,145</u>

Funding Status. The funded status of the plan as of June 30, 2014 is shown below.

Description	Amount
Actuarial Accrued Liability (AAL) - Active Employees	\$ 13,177,773
Actuarial Accrued Liability (AAL) - Retirees	18,177,632
Actuarial Accrued Liability (AAL) - Total	31,355,405
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 31,355,405</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.0%
Covered Payroll	\$ 28,155,666
UAAL as a Percentage of Covered Payroll	111.4%

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2014

5. OTHER INFORMATION (continued)

D. Other post employment benefits (continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for the last three fiscal years are presented below.

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution Made	% of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/12	\$ 2,792,374	\$ 817,595	29.3%	\$ 6,997,827
06/30/13	\$ 2,491,431	\$ 767,267	30.8%	\$ 8,721,991
06/30/14	\$ 2,539,783	\$ 805,629	31.7%	\$ 10,456,145

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plans and the annual required contributions of the employees are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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 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 22, 2013 actuarial valuation the following methods and assumptions were used.

Description	Assumption
Funding Interest Rate	3.00%
2014 Medical Trend Rate	4.50%
Ultimate Trend Rate	6.10%
Year Ultimate Trend Rate Reached	2018
Actuarial Cost Method	Projected Unit Credit
Amortization Period	30 Years
Projected Annual Increase in Payroll	3.20%

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

5. OTHER INFORMATION (continued)

D. Other post employment benefits (continued)

Membership in the Plans. Plan memberships consist of the following as presented in the last full actuarial report dated July 22, 2013.

Description	Active Employees	Pre-Medicare		Medicare Retirees
		Retirees Under 65	Retirees 65 & Over	
Medical:				
Number	374	51	23	140
Average Age	47	63	70	74
Average Service	10	N/A	N/A	N/A

Description	Active		Total Members
	Employees	Retirees	
Life Insurance - Number of Contracts	398	142	540
Dental Insurance - Number of Contracts	381	135	516

Funding Progress: The required schedule of funding progress immediately following the notes to the financial statements, schedule 11 on page 6-12, 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.

E. Implementation of new governmental accounting standards board (GASB) pronouncements

During fiscal year 2014 the following GASB pronouncements was implemented.

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities" issued April 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or as deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. This statement had no reporting implications for the District.

GASB Statement No. 66, "Technical Corrections – 2012 an Amendment of GASB Pronouncements #10 and #62" issued April 2012. The objective of this Statement is to improve accounting and financial reporting by state and local governments by resolving conflicting guidance that resulted from the issuance of two pronouncements – Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for periods beginning after December 15, 2012. This statement had no reporting implications for the District.

GASB Statement No. 67, "Financial Reporting for Pension Plans" issued August 2012. The objective of this Statement is to revise existing accounting and financial reporting requirements for most pension plans. This statement is effective for periods beginning after June 15, 2013. This statement had no reporting implications for the District.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

5. OTHER INFORMATION (continued)**E. Implementation of new governmental accounting standards board (GASB) pronouncements (continued)**

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees" issued April 2013. The objective of this statement is to enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. It will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees and will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. This statement is effective for periods beginning after June 15, 2013. This statement had no reporting implications for the District.

Other Future GASB Pronouncements

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" issued August 2012. The objective of this Statement is to revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. This statement is effective for periods beginning after June 15, 2014. Management believes this pronouncement will have a significant impact on the basic financial statements.

GASB Statement No. 69, "Government Combinations and Disposals of Government Operation" issued January 2013. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term government combinations is used in this Statement to refer to a variety of arrangements including mergers and acquisitions. Government combinations also include transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide these services. This statement is effective for periods beginning after December 15, 2013. Management does not believe this pronouncement will have a significant impact on the basic financial statements.

GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date" issued November 2013. The objective of this statement is to address an issue relating to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement is effective for periods beginning after June 15, 2014. Management does not believe this pronouncement will have a significant impact on the basic financial statements.

6. SUBSEQUENT EVENTFinancing of the Athletic Field Renovation Project

On September 29, 2014, the District issued \$1,950,000 in bond anticipation notes bearing an interest rate of .5% maturing on April 2, 2015. The proceeds will be used to finance the Athletic Field Renovation Project.

Concluded

SCHEDULE 1

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF BALANCE SHEETS
AS OF JUNE 30, 2014

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Assets:			
Pooled cash	1,603,416	136,180	1,739,596
Due from other governments	428,435	-	428,435
Inventory	15,955	-	15,955
Total assets	2,047,806	136,180	2,183,986
Liabilities:			
Fees collected in advance	14,130	-	14,130
Bond anticipation note	-	150,000	150,000
Total liabilities	14,130	150,000	164,130
Fund balances:			
Nonspendable	15,955	-	15,955
Restricted	2,017,721	-	2,017,721
Committed	-	7,322	7,322
Unassigned	-	(21,142)	(21,142)
Total fund balances	2,033,676	(13,820)	2,019,856
Total liabilities and fund balances	2,047,806	136,180	2,183,986

See accompanying notes to the basic financial statements.

SCHEDULE 2

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NONMAJOR GOVERNMENTAL FUNDS
COMBINED SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Revenues:			
Intergovernmental	3,370,847	-	3,370,847
Fees and charges for services	1,056,007	-	1,056,007
Other	72,107	26,153	98,260
Total revenues	4,498,961	26,153	4,525,114
Expenditures:			
Regular instruction	1,949,881	-	1,949,881
Preschool and special education	1,773,793	-	1,773,793
Ancillary school services	1,274,289	-	1,274,289
Maintenance and operations	31,155	-	31,155
Asset acquisition	-	47,295	47,295
Total expenditures	5,029,118	47,295	5,076,413
Net changes in fund balances	(530,157)	(21,142)	(551,299)
Fund balances - beginning of the year	2,563,833	7,322	2,571,155
Fund balances - end of the year	2,033,676	(13,820)	2,019,856

See accompanying notes to the basic financial statements.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF BALANCE SHEETS
JUNE 30, 2014

	Assets				Liabilities	Fund Balances			Total Liabilities and Fund Balances
	Pooled Cash	Due From		Total	Fees Collected in Advance	Non-Spendable	Restricted (See page 6-4 for details)		
		Other Governments	Inventory				Total		
Revolving funds:									
Adult ed.	114	-	-	114	-	-	114	114	114
After school program	16,050	-	-	16,050	-	-	16,050	16,050	16,050
Athletic.	111,448	-	-	111,448	-	-	111,448	111,448	111,448
Charlton cable.	21,810	-	-	21,810	-	-	21,810	21,810	21,810
Circuit breaker.	350,796	166,932	-	517,728	-	-	517,728	517,728	517,728
Drivers education.	35,073	-	-	35,073	-	-	35,073	35,073	35,073
Dudley Charlton ed donation. ...	23,758	-	-	23,758	-	-	23,758	23,758	23,758
English ELL	1,000	-	-	1,000	-	-	1,000	1,000	1,000
Fels donation gift.	9,728	-	-	9,728	-	-	9,728	9,728	9,728
Parking fees.	75,505	-	-	75,505	-	-	75,505	75,505	75,505
Preschool.	50,076	-	-	50,076	-	-	50,076	50,076	50,076
Salary reimbursement.	6,333	-	-	6,333	-	-	6,333	6,333	6,333
School choice.	926,723	76,583	-	1,003,306	-	-	1,003,306	1,003,306	1,003,306
School lunch.	62,627	32,664	15,955	111,246	14,130	15,955	81,161	97,116	111,246
Summer school	28,258	-	-	28,258	-	-	28,258	28,258	28,258
Federal / state / other grants:									
Academic support fy14.	1	-	-	1	-	-	1	1	1
Kindergarten fy14.	(21,519)	21,519	-	-	-	-	-	-	-
PL 94-142 fy14.	(12,775)	43,174	-	30,399	-	-	30,399	30,399	30,399
Title 2A fy14.	(23,963)	23,963	-	-	-	-	-	-	-
Title 1 fy14.	(57,627)	63,600	-	5,973	-	-	5,973	5,973	5,973
Total.	1,603,416	428,435	15,955	2,047,806	14,130	15,955	2,017,721	2,033,676	2,047,806

See accompanying notes to the basic financial statements.

(Continued)

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF RESTRICTED FUND BALANCES
JUNE 30, 2014

	Fund Balance Restricted for				Totals (See page 6-3)
	Regular Instruction	Preschool & Special Education	Ancillary School Services	Maintenance and Operations	
Revolving funds:					
Adult ed.	-	-	114	-	114
After school program	-	-	16,050	-	16,050
Athletic.	-	-	111,448	-	111,448
Charlton cable.	-	-	21,810	-	21,810
Circuit breaker.	-	517,728	-	-	517,728
Drivers education.	-	-	35,073	-	35,073
Dudley Charlton ed donation.	23,758	-	-	-	23,758
English ELL	1,000	-	-	-	1,000
Fels donation gift.	9,728	-	-	-	9,728
Parking fees.	-	-	-	75,505	75,505
Preschool.	-	50,076	-	-	50,076
Salary reimbursement.	-	-	-	6,333	6,333
School choice.	1,003,306	-	-	-	1,003,306
School lunch.	-	-	81,161	-	81,161
Summer school	28,258	-	-	-	28,258
Federal / state / other grants:					
Academic support fy14	1	-	-	-	1
PL 94-142 fy14	-	30,399	-	-	30,399
Title 1 fy14.	5,973	-	-	-	5,973
Total.	1,072,024	598,203	265,656	81,838	2,017,721

See accompanying notes to the basic financial statements.

(Concluded)

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
SPECIAL REVENUE FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2014

	Revenues (See page 6-6)	Expenditures (See page 6-7)	Net Changes in Fund Balances	Fund Balance	
				June 30, 2013	June 30, 2014
Revolving funds:					
Adult ed.	-	-	-	114	114
After school program	37,196	48,009	(10,813)	26,863	16,050
Athletic.	166,725	106,282	60,443	51,005	111,448
Charlton cable	25,000	3,190	21,810	-	21,810
Circuit breaker.	667,728	813,391	(145,663)	663,391	517,728
Drivers education.	97,305	77,797	19,508	15,565	35,073
Dudley Charlton ed donation.	37,890	57,193	(19,303)	43,061	23,758
English ELL	1,000	1,202	(202)	1,202	1,000
Fels donation gift.	-	3,496	(3,496)	13,224	9,728
Parking fees.	19,800	326	19,474	56,031	75,505
Preschool.	67,840	82,742	(14,902)	64,978	50,076
Salary reimbursement.	37,162	30,829	6,333	-	6,333
School choice.	805,685	1,305,048	(499,363)	1,502,669	1,003,306
School lunch.	1,040,452	1,034,922	5,530	91,586	97,116
Shepherd Hill art show	4,089	4,089	-	-	-
Summer school	10,868	7,248	3,620	24,638	28,258
Toshiba fund	4,128	4,128	-	-	-
Federal / state / other grants:					
Academic support summer fy14	16,000	16,000	-	-	-
Academic support fy14.	3,770	3,769	1	-	1
Early childhood fy13.	-	517	(517)	517	-
Early childhood fy14	30,246	30,246	-	-	-
Early childhood program improve fy14	4,000	4,000	-	-	-
Inclusive preschool fy14.	41,401	41,401	-	-	-
Kindergarten fy14.	135,024	135,024	-	-	-
PL 94-142 fy14.	810,416	780,017	30,399	-	30,399
Program improvement fy13.	-	4,150	(4,150)	4,150	-
Program improvement fy14.	17,329	17,329	-	-	-
RTTT fy14.	39,997	39,997	-	-	-
Teacher quality fy13.	-	1,101	(1,101)	1,101	-
Title 1 fy13.	24,771	28,509	(3,738)	3,738	-
Title 1 fy14	270,897	264,924	5,973	-	5,973
Title 2A fy14.	82,242	82,242	-	-	-
Total.	4,498,961	5,029,118	(530,157)	2,563,833	2,033,676

See accompanying notes to basic financial statements.

(Continued)

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	Revenues			Totals (See page 6-5)
	Inter- governmental	Fees and Charges for Services	Other	
Revolving funds:				
After school program	-	37,196	-	37,196
Athletic.	-	166,725	-	166,725
Charlton cable	-	-	25,000	25,000
Circuit breaker.	667,728	-	-	667,728
Drivers education.	-	97,305	-	97,305
Dudley Charlton ed donation.	-	-	37,890	37,890
English ELL	-	-	1,000	1,000
Parking fees.	-	19,800	-	19,800
Preschool.	-	67,840	-	67,840
Salary reimbursement.	-	37,162	-	37,162
School choice.	805,685	-	-	805,685
School lunch.	421,341	619,111	-	1,040,452
Shepherd Hill art show	-	-	4,089	4,089
Summer school	-	10,868	-	10,868
Toshiba fund	-	-	4,128	4,128
Federal / state / other grants:				
Academic support summer fy14	16,000	-	-	16,000
Academic support fy14.	3,770	-	-	3,770
Early childhood fy14	30,246	-	-	30,246
Early childhood program improve fy14.	4,000	-	-	4,000
Inclusive preschool fy14.	41,401	-	-	41,401
Kindergarten fy14.	135,024	-	-	135,024
PL 94-142 fy14.	810,416	-	-	810,416
Program improvement fy14.	17,329	-	-	17,329
RTTT fy14.	39,997	-	-	39,997
Title 1 fy13.	24,771	-	-	24,771
Title 1 fy14	270,897	-	-	270,897
Title 2A fy14.	82,242	-	-	82,242
Total.	3,370,847	1,056,007	72,107	4,498,961

See accompanying notes to the basic financial statements.

(Continued)

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	Expenditures				Totals (See page 6-5)
	Regular Instruction	Preschool & Special Education	Ancillary School Services	Maintenance and Operations	
Revolving funds:					
After school program	-	-	48,009	-	48,009
Athletic.	-	-	106,282	-	106,282
Charlton cable	-	-	3,190	-	3,190
Circuit breaker.	-	813,391	-	-	813,391
Drivers education.	-	-	77,797	-	77,797
Dudley Charlton ed donation.	57,193	-	-	-	57,193
English ELL	1,202	-	-	-	1,202
Fels donation gift.	3,496	-	-	-	3,496
Parking fees.	-	-	-	326	326
Preschool.	-	82,742	-	-	82,742
Salary reimbursement.	-	-	-	30,829	30,829
School choice.	1,305,048	-	-	-	1,305,048
School lunch.	-	-	1,034,922	-	1,034,922
Shepherd Hill art show	-	-	4,089	-	4,089
Summer school	7,248	-	-	-	7,248
Toshiba fund	4,128	-	-	-	4,128
Federal / state / other grants:					
Academic support summer fy14	16,000	-	-	-	16,000
Academic support fy14.	3,769	-	-	-	3,769
Early childhood fy13.	-	517	-	-	517
Early childhood fy14	-	30,246	-	-	30,246
Early childhood program improve fy14.	-	4,000	-	-	4,000
Inclusive preschool fy14.	-	41,401	-	-	41,401
Kindergarten fy14.	135,024	-	-	-	135,024
PL 94-142 fy14.	-	780,017	-	-	780,017
Program improvement fy13.	-	4,150	-	-	4,150
Program improvement fy14.	-	17,329	-	-	17,329
RTTT fy14.	39,997	-	-	-	39,997
Teacher quality fy13.	1,101	-	-	-	1,101
Title 1 fy13.	28,509	-	-	-	28,509
Title 1 fy14	264,924	-	-	-	264,924
Title 2A fy14.	82,242	-	-	-	82,242
Total.	1,949,881	1,773,793	1,274,289	31,155	5,029,118

See accompanying notes to the basic financial statements.

(Continued)

SCHEDULE 5

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NONMAJOR CAPITAL PROJECT FUNDS
COMBINING SCHEDULE OF BALANCE SHEETS
FOR THE YEAR ENDED JUNE 30, 2014

	Capital Improvement Projects Fund	Athletic Field Renovation Fund	Total
Assets - pooled cash	7,322	128,858	136,180
Liabilities - bond anticipation note	-	150,000	150,000
Fund balances:			
Committed	7,322	-	7,322
Unassigned	-	(21,142)	(21,142)
Total fund balances	7,322	(21,142)	(13,820)
Total liabilities and fund balance	7,322	128,858	136,180

See accompanying notes to the basic financial statements.



SCHEDULE 6

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NONMAJOR CAPITAL PROJECT FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	Capital Improvement Projects Fund	Athletic Field Renovation Fund	Total
Revenues - donations	-	26,153	26,153
Expenditures - asset acquisitions	-	47,295	47,295
Net changes in fund balance	-	(21,142)	(21,142)
Fund balances:			
Beginning of year	7,322	-	7,322
End of year	7,322	(21,142)	(13,820)

See accompanying notes to the basic financial statements.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
FIDUCIARY FUNDS
COMBINED SCHEDULE OF NET POSITION
AS OF JUNE 30, 2014

	Assets	Liabilities		Net Position	Total
	Pooled Cash	Payroll Withholdings	Due To Student Groups	Reserved for Trust Funds	Liabilities and Net Position
Private-purpose trust funds:					
Scholarship funds:					
Alumni	4,597	-	-	4,597	4,597
Employee	4,336	-	-	4,336	4,336
General	12,601	-	-	12,601	12,601
Hammond	2,589	-	-	2,589	2,589
Jarosz	4,475	-	-	4,475	4,475
Kaliszewski	3,900	-	-	3,900	3,900
Lavoie	1,147	-	-	1,147	1,147
Marotz	4,374	-	-	4,374	4,374
Normandy	4,297	-	-	4,297	4,297
Thibaudeau	4,080	-	-	4,080	4,080
Vegnone	2,349	-	-	2,349	2,349
Total	48,745	-	-	48,745	48,745
Agency funds:					
Student activities:					
Charlton elementary	553	-	553	-	553
Charlton middle	37,819	-	37,819	-	37,819
Dudley elementary	7,568	-	7,568	-	7,568
Dudley middle	14,901	-	14,901	-	14,901
Heritage	3,404	-	3,404	-	3,404
Mason road	2,233	-	2,233	-	2,233
Shepherd hill high	150,444	-	150,444	-	150,444
Total student activities	216,922	-	216,922	-	216,922
Payroll withholdings	7,431	7,431	-	-	7,431
Total agency funds	224,353	7,431	216,922	-	224,353
Total fiduciary funds	273,098	7,431	216,922	48,745	273,098

See accompanying notes to the basic financial statements.

SCHEDULE 8

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
FIDUCIARY FUNDS - PRIVATE PURPOSE TRUST FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
AS OF JUNE 30, 2014

	Revenues	Expenditures	Net Increase (Decrease)	Net Position	
				June 30, 2013	June 30, 2014
Scholarship funds:					
Alumni.....	774	250	524	4,073	4,597
Employee.....	4,336	-	4,336	-	4,336
General.....	1,396	35	1,361	11,240	12,601
Hammond.....	-	200	(200)	2,789	2,589
Jarosz.....	-	500	(500)	4,975	4,475
Kaliszewski.....	-	500	(500)	4,400	3,900
Lavoie.....	-	200	(200)	1,347	1,147
Marotz.....	-	500	(500)	4,874	4,374
Normandy.....	-	500	(500)	4,797	4,297
Thibaudeau.....	4,080	-	4,080	-	4,080
Vegnone.....	-	250	(250)	2,599	2,349
Total.....	10,586	2,935	7,651	41,094	48,745

See accompanying notes to the basic financial statements.

SCHEDULE 9

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
AGENCY FUNDS
COMBINING SCHEDULE OF CHANGES IN LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Increases	Decreases	Net Increase (Decrease)	Due to Student Groups	
				June 30, 2013	June 30, 2014
Student activities:					
Charlton elementary.....	11,477	13,595	(2,118)	2,671	553
Charlton middle.....	41,309	62,787	(21,478)	59,297	37,819
Dudley elementary.....	19,851	22,712	(2,861)	10,429	7,568
Dudley middle.....	74,475	76,146	(1,671)	16,572	14,901
Heritage.....	41,791	56,755	(14,964)	18,368	3,404
Mason road.....	5,820	3,889	1,931	302	2,233
Shepherd hill high.....	455,890	446,611	9,279	141,165	150,444
Total.....	650,613	682,495	(31,882)	248,804	216,922

See accompanying notes to the basic financial statements.

SCHEDULE 10

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
RECONCILIATION OF TREASURER'S CASH
FOR THE YEAR ENDED JUNE 30, 2014

Bank accounts:	
Webster Five Cent Savings.	3,731,801
Southbridge Savings Bank.	78,481
Unibank.	5,940,547
Total bank accounts.	<u>9,750,829</u>
Cash to be deposited.	23
Total pooled cash.	<u><u>9,750,852</u></u>

Pooled cash is presented in the financial statements as follows:

General fund.	7,617,065
Health insurance fund.	121,093
Special revenue and capital project funds.	1,739,596
Total governmental funds.	<u>9,477,754</u>
Trust & agency funds.	273,098
Total pooled cash.	<u><u>9,750,852</u></u>

For use by the Massachusetts Department of Revenue Bureau of Accounts
Reconciliation of Pooled Cash to Amounts Reported on the Annual Report of
Reconciliation of Treasurer's Cash as of June 30, 2014

Amount reported to Mass. Department of Revenue on Treasurer's Report as of June 30, 2014	<u><u>9,750,852</u></u>
---	-------------------------

See accompanying notes to the basic financial statements.

SCHEDULE 11

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
OTHER POST-EMPLOYMENT BENEFITS FUNDING PROGRESS (UNAUDITED)
AS OF JUNE 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/30/09	\$ -	\$ 20,236,112	\$ 20,236,112	0.0%	\$ 27,042,659	74.8%
02/14/11	\$ -	\$ 26,279,971	\$ 26,279,971	0.0%	\$ 27,349,862	96.1%
07/22/13	\$ -	\$ 31,187,059	\$ 31,187,059	0.0%	\$ 27,606,263	113.0%

See accompanying notes to the basic financial statements.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the School Committee of the
Dudley-Charlton Regional School District:

February 6, 2015

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Dudley-Charlton Regional School District of Massachusetts (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 6, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies; specifically "Finding 2014-001" and "Finding 2014-002".

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain other matters that we reported to management of the District in a separate letter dated February 6, 2015.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the School Committee of the
Dudley-Charlton Regional School District:

Report on Compliance for Each Major Program

We have audited the Dudley-Charlton Regional School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the District's compliance.

Opinion of Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Stanley H. Kulas, CPA

STANLEY H. KULAS
Certified Public Accountant
February 6, 2015

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an opinion on the basic financial statements of the Dudley-Charlton Regional School District which was unmodified.
2. Two significant deficiencies disclosed during the audit of the basic financial statements are reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*." These deficiencies are not reported as material weaknesses.
3. No instances of noncompliance material to the basic financial statements of the District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the "Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program & Internal Control Over Compliance in Accordance With Circular A-133."
5. The auditors' report on compliance for the major federal award programs for the District expresses an unmodified opinion.
6. There were no audit findings relative to the District's federal award major programs.
7. The program tested as major programs were:
 - 10.553 National School Breakfast Program
 - 10.555 National School Lunch Program
 - 84.027 Special Education – Grants to States
 - 84.173 Special Education – Early Childhood Learning and Program Improvement
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. As defined by Circular A-133, the District was determined to be a low risk auditee.

B FINDINGS - FINANCIAL STATEMENTS AUDIT

Significant Deficiencies

2014-001 – Preparation of financial statements based on generally accepted accounting principles (this deficiency had been noted in the FY13 report)

Condition: As is the case for most school districts and municipalities in Massachusetts, the District does not prepare its financial statements. The financial statements are prepared by the accounting firm that conducts the audit of these statements. Although District management reviews a draft of the financial statements to detect any errors or omissions before the financial statements are finalized and released, the District does not have adequately trained personnel to determine if these financial statements adhere to the latest governmental accounting standards.

Background: The American Institute of Certified Public Accountants issued Auditing Standard #112 "Communicating Internal Control Related Matters Identified in the Audit". This standard requires the auditor to report on control deficiencies involving the preparation of the financial statements. Specifically it addresses the fact that it is the District's, rather than the auditor's, responsibility to prepare financial statements.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

B FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

Significant Deficiencies (Continued)

2014-1 – Preparation of financial statements based on generally accepted accounting principles (continued)

Criteria: A system of internal control over financial reporting does not stop at the general ledger. It includes controls over financial statement preparation, including footnote disclosure. The fact that the auditor prepares the financial statements may mean they are correct, but it does not eliminate the control deficiency. An auditor cannot be considered part of the client's internal control. Thus, controls over the financial statement preparation function that exist in the auditor's firm cannot be considered. Only the controls the client has in place can be considered in determining whether there is a control deficiency and its severity.

Cause: District personnel are not trained to prepare the financial statements, including accompanying footnotes.

Effect: Because District personnel are not trained to prepare the financial statements, including accompanying footnotes, there is more than a remote likelihood that District personnel, during their review process, would not be able to detect a significant error or omission in the financial statements.

Recommendation: The District should be aware that this control deficiency exists, and consider whether it wants to spend the resources needed to adequately train its personnel so that they could prepare the financial statements or have the financial statements prepared by a qualified, independent third party.

Views of Responsible District Official and Planned Corrective Actions: We are aware of this situation and will take the above recommendation under consideration.

2014-002 - Accounting policies and procedures manual (this deficiency had been noted in the FY13 report)

Condition: As is the case with the majority of regional school districts we have audited, the District does not have a comprehensive and all inclusive manual which documents the financial accounting policies and procedures under which it operates.

Criteria: An accounting policies and procedures manual is an important part of the overall internal control system. Such a manual would document the District's systems, work requirements, accounting methodologies, etc.

Cause: District personnel do not have the time to prepare an all-inclusive manual due to the demands of their day-to-day operations.

Effect: Possible disruption of operations should key business office personnel leave.

Recommendation: Management should request all business office personnel to draft pertinent sections of this manual dealing with their specialized area (i.e., payroll, payables, receipts, disbursements, etc.). These drafts should then be reviewed, edited, and compiled by the director of business services into one comprehensive and inclusive manual.

Views of Responsible District Official and Planned Corrective Actions: We concur and anticipate completing the manual as time allows.

C FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount	Fund Balance 07/01/13	Revenues			Expenditures			Fund Balance 06/30/14
					Federal	State	Other	Program Costs	Refunds to State	Other	
U.S. Department of Agriculture											
Passed Through State Dept of Elementary and Secondary Education:											
Food Distribution (NOTE C)	10.550	14-054-1	N/A	-	66,846	-	-	66,846	-	-	-
Child Nutrition Cluster:											
National School Breakfast Program	10.553	14-054-1	N/A	-	10,782	-	-	10,782	-	-	-
National School Lunch Program	10.555	14-054-1	N/A	91,586	393,042	17,517	619,111	393,042	-	631,098	97,116
Subtotal - Child Nutrition Cluster			N/A	91,586	403,824	17,517	619,111	403,824	-	631,098	97,116
TOTAL DEPARTMENT OF AGRICULTURE			-	91,586	470,670	17,517	619,111	470,670	-	631,098	97,116
U.S. Department of Education											
Passed Through State Dept of Elementary and Secondary Education:											
Title I, Part A Cluster:											
Title 1 - Grants to LEAs FY14	84.010	305-018906-2014-0658	290,988	-	270,897	-	-	264,924	-	-	5,973
Title 1 - Grants to LEAs FY13	84.010	305-000696-2013-0658	276,414	3,738	24,771	-	-	28,509	-	-	-
Subtotal Title I, Part A Cluster			567,402	3,738	295,668	-	-	293,433	-	-	5,973
Special Education IDEA Cluster:											
Sped IDEA B - Grants to States FY14	84.027	240-071-4-0658-O	810,416	-	810,416	-	-	780,017	-	-	30,399
Sped Program Improvement FY14	84.027	274-109-4-0658-O	17,329	-	17,329	-	-	17,329	-	-	-
Sped Program Improvement FY13	84.027	274-013-3-0658-N	30,887	4,150	-	-	-	4,150	-	-	-
Sped EC Program Improvement FY14	84.173	298-311-4-0658-O	4,000	-	4,000	-	-	4,000	-	-	-
Sped Early Childhood Learning FY14	84.173	262-14-Dudley	30,246	-	30,246	-	-	30,246	-	-	-
Sped Early Childhood Learning FY13	84.173	262-13-Dudley	31,282	517	-	-	-	517	-	-	-
Subtotal Special Education IDEA Cluster			924,160	4,667	861,991	-	-	836,259	-	-	30,399
Teacher Quality FY14	84.367	140-034758-2014-0658	82,242	-	82,242	-	-	82,242	-	-	-
Teacher Quality FY13	84.367	140-004632-2013-0658	85,339	1,101	-	-	-	1,101	-	-	-
Program 84.367			167,581	1,101	82,242	-	-	83,343	-	-	-
ARRA - Race to the Top FY14	84.395	201-015726-2014-0658	39,997	-	39,997	-	-	39,997	166	-	-
TOTAL DEPARTMENT OF EDUCATION			1,699,140	9,506	1,279,898	-	-	1,252,866	166	-	36,372
TOTAL FEDERAL ASSISTANCE			1,699,140	101,092	1,750,568	17,517	619,111	1,723,536	166	631,098	133,488

See accompanying notes to schedule of expenditures of federal awards.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and other awards (the Schedule) includes the federal grant activity of the Dudley-Charlton Regional School District (the District) under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States and Local Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where applicable.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed.

DUDLEY-CHARLTON REGIONAL SCHOOL DISTRICT
SUMMARY OF PRIOR YEAR'S FINDINGS AND CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2014

SUMMARY SCHEDULE OF PRIOR YEAR'S FINDINGS

There were no findings or questioned costs associated with the audit of major federal award programs for the fiscal year ended June 30, 2013.

CORRECTIVE ACTION PLAN

There were two findings regarding this year's audit that are considered significant deficiencies concerning the preparation of financial statements and the completion of accounting policies and procedures manual.

Please refer to "Significant Deficiencies 2014-001 and 2014-002" in Section B beginning on page 7-4 of this report package for a detailed description of these deficiencies along with the District's corrective action scenario.

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES OVER COMPLIANCE
APPLICABLE TO MASSACHUSETTS SCHOOL DISTRICTS' END-OF-YEAR PUPIL AND FINANCIAL REPORT

To the School Committee of the
Dudley-Charlton Regional School District

We have performed the procedures specified in the Massachusetts Department of Elementary and Secondary Education's (DESE) Compliance Supplement applicable to Massachusetts School Districts to the End-of-Year Pupil and Financial Report prepared by the Dudley-Charlton Regional School District (the "District") for the year ended June 30, 2014. We performed these procedures solely to assist the District and DESE evaluate the District's assertion that it has complied with the DESE requirements applicable to the preparation and filing of a Massachusetts School District's End-of-Year Pupil and Financial Report. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users.

Consequently we make no representation regarding the sufficiency of the procedures specified in the Massachusetts Department of Elementary and Secondary Education's Compliance Supplement applicable to Massachusetts School Districts to the End-of-Year Pupil and Financial Report for the purpose for which this report has been requested or for any other purpose.

We found no instances of noncompliance with the agreed-upon procedures.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the End-of-Year Pupil and Financial Report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the school committee, management, and the Massachusetts Department of Elementary and Secondary Education and is not intended to be and should not be used by anyone other than these specified parties.

Stanley H. Kulas, CPA
STANLEY H. KULAS
Certified Public Accountant
February 6, 2015

Department of Elementary and Secondary Education
 End-of-Year Financial Report - Compliance Supplement Questionnaire
 Dudley-Charlton Regional School District
 For the Year Ended June 30, 2014

1. Identify the accounting system used by the school department including the version.

Accounting System: SoftRight

Version: 3.7.1

2. Is the payroll system integrated with the accounting system? Yes No

3. Is the District a municipal department? Yes No

If yes, is the accounting system integrated with the City or Town's accounting system? Yes No

If no, please identify the accounting system and version used by the City or Town.

Accounting System: _____

Version: _____

4. Does the accounting system permit the reporting of all school district expenditures, in accordance with DESE Guidelines, by the following:

Fund	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
DESE Function Code	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Object	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Program	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Location	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

5. Is a crosswalk used to allocate costs to the End-of-Year Report?

Payroll	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Non-Payroll	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

If yes, please provide a brief explanation indicating what costs are allocated and why an allocation is necessary.

For purposes of reporting Schedule 3 expenses for the general fund, certain district wide expenses
such as training, tech services and sped specialists are apportioned to each school based on the
school's budget to the total district budget.

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REPORT TO MANAGEMENT

To the School Committee of the
Dudley-Charlton Regional School District:

In planning and performing our audit of the basic financial statements of the Dudley-Charlton Regional School District of the Commonwealth of Massachusetts (the District) for the year ended June 30, 2014, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We have issued a separate report on significant deficiencies dated February 6, 2015, which is included as part of this reporting package.

As a result of our audit of the basic financial statements, we noted certain other matters, not considered to be significant deficiencies, which are listed below in order of relative importance.

Current Year's Comment

Documentation of Methodology Used to Compile End of Year Report

Status of Prior Comments

Health Insurance Fund

Implementation of GASB #68 "Accounting and Financial Reporting for Pensions"

This report is intended solely for the information and use of the School Committee and management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Stanley H. Kulas, CPA

Stanley H. Kulas
Certified Public Accountant
February 6, 2015

CURRENT YEAR COMMENT

DOCUMENTATION OF METHODOLOGY USED TO COMPILE END OF YEAR REPORT

Observation – FY 2014: The District has a procedure it uses to compile financial information for the Massachusetts Department of Elementary and Secondary Education – End of Year Report. During the course of our audit, we noted errors and found some of the documentation supporting reported amounts to be difficult to interpret.

Recommendation – FY 2014: In order to support the methodology used to compile information reported in the End of Year Report, the District uses a series of folders containing worksheets and documentation. Extra care should be taken to ensure that all the documentation is included in these folders and this documentation readily supports a reconciliation between amounts reported in the End of Year Report and the District's financial system.

STATUS OF PRIOR COMMENTS

HEALTH INSURANCE FUND

Observation – FY 2013: Health claims and other expenses exceeded revenues by \$88,557, \$388,841 and \$768,400 in fiscal years 2011, 2012 and 2013 respectively. As a result, the fund balance has fallen to \$718,014 as of June 30, 2013. Unaudited results for fiscal year 2014, suggest that the health claims and expenses continue to exceed revenues.

Recommendation – FY 2013: The District needs to review its insurance rates to ensure that sufficient funds will be available to meet claims. In addition, the District should work with its insurance consultant to ensure that all eligible claims are being reimbursed by the stop-loss insurer.

Management Response – FY 2013: While claims experience can vary substantially from year to year, the District has taken the following measures to cope with the recent adverse trend.

- Discontinued its most costly plan (Blue Cross Master Health Plus).
- Raised premiums on two of its plans effective September 1, 2013.
- Instituted a five percent across-the-board rate increase effective mid-year.
- Reviewed its stop-loss claims experience and revenue for accuracy and completeness.
- Included additional funding in the fiscal year 2015 proposed budget should additional increases be necessary.
- Begun exploration of possible options available to the District (e.g. plan design changes, Group Insurance Commission enrollment, etc.).

Status – FY 2014: Health claims and other expenses exceeded revenues by \$520,837 in fiscal years 2014. As a result, the fund balance has fallen to \$197,177 as of June 30, 2014. Unaudited results for fiscal year 2015, suggest that the health claims and expenses continue to exceed revenues.

Management Response – FY 2014: Claim costs continue to grow at a rapid rate. The District strives to increase revenues and reduce claims costs. Toward this goal, the District has taken the following actions.

- Raised premiums twice in calendar year 2014.
- Included additional funding in the FY2016 proposed budget to provide for premium increases, if necessary.
- Large claims continue to be reviewed to assure accuracy and maximize stop loss insurance payments to the District.
- District management meets frequently with its insurance consultant and the District's Insurance Advisory Committee to consider substantial increases to co-payments and to institute a deductible amount.
- The District continues to pursue membership in a health insurance purchasing cooperative.

**IMPLEMENTATION OF GASB #68
"ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS"**

Fiscal 2012 Observation: In August 2012 the Governmental Accounting Standards Board (GASB) issued a new pronouncement, GASB #68 that fundamentally revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits.

This pronouncement generally requires governments to change from "pay-as-you-go" recognition of pension costs to a full accrual method. Governments may continue to fund these costs when actually paid but must begin recognizing annual pension expense as the employee services are provided. Significant balance sheet liabilities will exist for governments that don't convert to accrual funding.

The District is required to implement these changes for the fiscal year beginning July 1, 2014.

Fiscal 2012 Recommendation: District management should attend seminars and obtain the necessary literature required, well in advance of the implementation deadline, to ensure compliance with all the provisions of this new accounting pronouncement.

Status – FY 2013 The Finance Director has attended a seminar regarding GASB #68 sponsored by the Massachusetts Association of School Business Officials and participated in a regional roundtable discussion of this topic. He will continue to pursue information so that the District may comply in a timely manner.

Status – FY 2014 The Finance Director has continued to stay abreast of the issues involved with complying with GASB #68.

Concluded
