



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued November 21, 2014

Independent Review of Cash Flow Activity and Trends for the Wachusett Regional School District

For the period July 1, 2010 through June 30, 2013





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Office of the State Auditor
Suzanne M. Bump

Making government work better

November 21, 2014

Mr. Lance Harris, Chairman of the School Committee
Wachusett Regional School District
Jefferson School
1745 Main Street
Jefferson, MA 01522

Dear Chairman Harris:

I am pleased to provide this attestation review of the Wachusett Regional School District. This report details the objectives, scope, methodology, results, and conclusions for the review period, July 1, 2010 through June 30, 2013. My staff discussed the contents of this report with the superintendent, business manager, and finance manager at the conclusion of the engagement.

I would also like to express my appreciation to the Wachusett Regional School District for the cooperation and assistance provided to my staff during the review.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

cc: Darryll McCall, Ed.D., Superintendent of Schools

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EXECUTIVE SUMMARY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, at the request of the Wachusett Regional School District (WRSD), the Office of the State Auditor (OSA) agreed to conduct an attestation review of WRSD's cash activity and cash flow trends for the period July 1, 2010 through June 30, 2013, to determine whether the district could have operated without using revenue anticipation notes (RANs) to finance some of its operations. To achieve this objective, we analyzed the cash trends of WRSD's General Fund for the period July 1, 2010 through June 30, 2013 and created financial models to test whether WRSD could have funded its operations without using RANs. We also performed inquiries with WRSD's administrative and business staff and reviewed various records such as bank reconciliations, RAN approvals, and financial reports. In addition, we conducted a survey of 18 regional school districts to obtain information about their districts' use of RANs to supplement their cash balances.

Summary of Results and Conclusions

Based on our review of the department's cash activity and cash flow trends during fiscal years 2011 (July 1, 2010 through June 30, 2011), 2012 (July 1, 2011 through June 30, 2012), and 2013 (July 1, 2012 through June 30, 2013), we found that WRSD could have operated without issuing annual RANs and saved \$476,722 in interest and other costs associated with using RANs during the period covered by our review, if it had received its community assessment funding earlier in the fiscal year.

Currently, the district's communities are scheduled to pay their community assessments semiannually, in November and May. OSA found that if WRSD had received either semiannual or quarterly community assessment payments starting in July, rather than having to wait until November to receive the first payment, the district's month-end cash balances would have been positive for the entire review period and the district would not have had to issue RANs to fund its operations. In our modeling, we analyzed the effect of the district's state aid being paid monthly, since the Commonwealth is now (as of fiscal year 2014) funding all districts monthly, and identified five other scenarios that would have allowed WRSD to avoid using RANs during our review period. Specifically, if the district had received community assessment payments semiannually, quarterly, monthly or every other month beginning in July, or semiannually beginning in August, the month-end balances would have been positive for the entire review period, which again would have meant RANs were not necessary. Any change in the current schedule of community assessment payments

(November and May) would require the communities to approve an amendment to the district agreement.

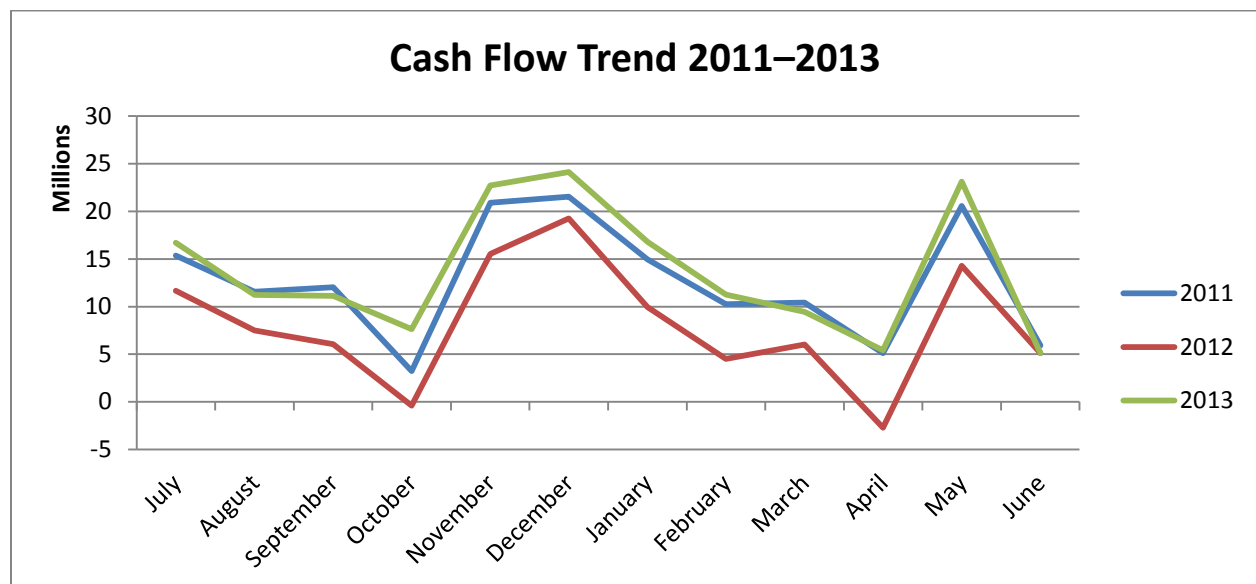
AGENCY OVERVIEW

Background

In 1950, Wachusett, a grade 9–12 school district, became the first regional school district in the Commonwealth of Massachusetts. In 1994, its five member towns (Holden, Paxton, Princeton, Rutland, and Sterling) voted to merge all their schools into a K–12 district. The Wachusett Regional School District (WRSD) includes 13 schools in the five towns, including an early childhood center, elementary and middle schools, and a regional high school in Holden. During fiscal year 2013, approximately 7,200 students were enrolled in WRSD.

The Wachusett Regional School Committee is made up of 22 members, elected on staggered terms every three years, who meet twice a month in January, February, March, April, October, and November and once a month during the other months. The number of seats each community holds on the school committee is based on its population. The current superintendent of schools was appointed February 1, 2014, and the current director of Business and Finance was hired by WRSD on January 2, 2013.

WRSD managed an operating budget that averaged approximately \$75 million per year during fiscal years 2011 through 2013. WRSD’s business operations, including all revenue and expenditures, are processed through its General Fund account. As shown in the chart below, an analysis of the General Fund month-end balances indicates that WRSD’s business operations follow a consistent operational trend. Each year, the month-end balances dropped to their lowest points before semiannual local community payments were received in November and May.



Revenue

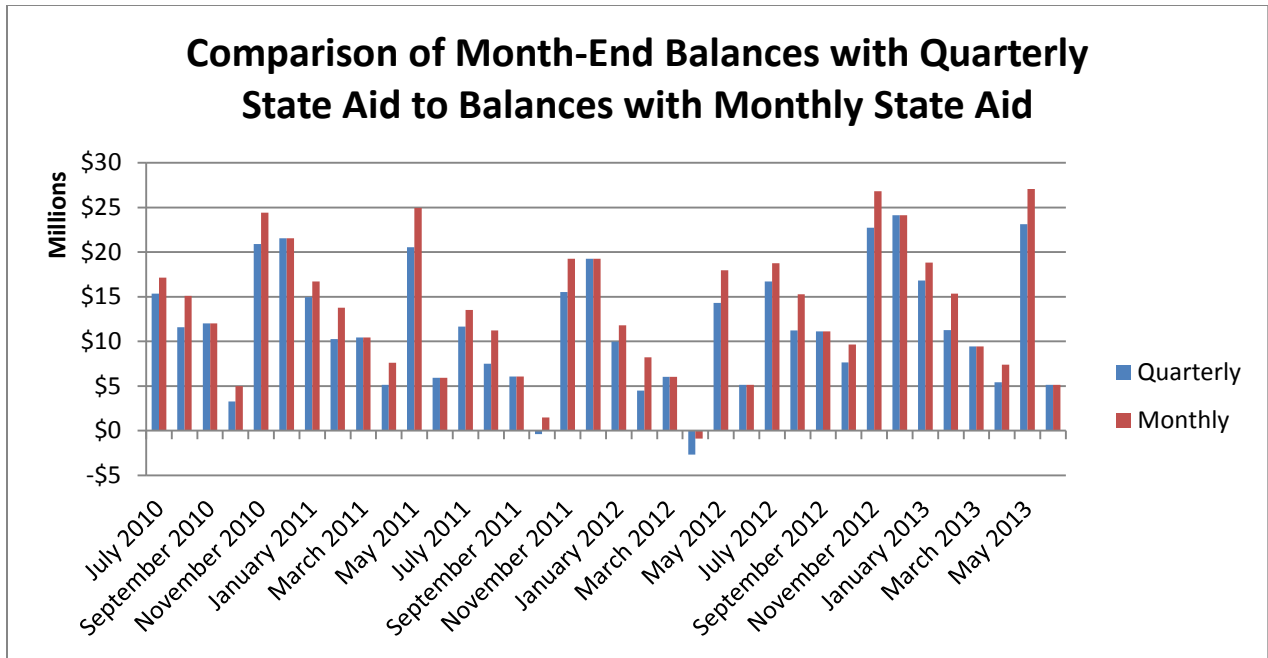
Several revenue factors affect the General Fund account balances, including local community payments, state aid payments, and revenue anticipation notes (RANs). Local member communities are assessed semiannual charges for their apportioned costs of the annual WRSD budget. The assessments are based on each community's percentage of student enrollment as of October 1 of the prior year and are scheduled to be paid on the first days of May and November. Member assessments for fiscal years 2011, 2012, and 2013 were \$46.6 million, \$48.2 million, and \$50.6 million, respectively. The town of Holden contributed more than 40% of the total community assessments.

WRSD Community Assessments

Local Community	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013
Holden	\$ 20,154,177	\$ 20,784,752	\$ 21,738,184
Sterling	9,315,395	9,474,108	9,906,261
Rutland	7,620,388	8,066,349	8,803,760
Paxton	4,911,480	5,059,980	5,250,964
Princeton	4,643,885	4,844,515	4,865,026
Total	<u>\$46,645,325</u>	<u>\$48,229,704</u>	<u>\$ 50,564,195</u>

The Commonwealth funds the local school districts through Chapter 70 of the Massachusetts General Laws. This statute establishes the calculation for each district's funding level. WRSD also receives Commonwealth funding for transportation and charter-school reimbursements. During fiscal years 2011, 2012, and 2013, state aid payments, which were made quarterly, totaled \$23.1 million, \$24.4 million, and \$25.4 million, respectively. As shown in the chart above, the quarterly payments received in September and March delay the downward trend in the General Fund balances, and the payment in December, combined with the local community assessment payments in November, increases the balance to its highest levels.

Beginning in fiscal year 2014, local school districts began to receive state funds monthly. We compared state aid received quarterly to aid received monthly to gauge the effect of this change on WRSD's monthly General Fund balances during our review period. As shown in the chart below, we found a correlation between the increase in frequency of state aid payments and an increase in the monthly balances.



During fiscal years 2011 through 2013, WRSD used RANs to manage its cash needs. RANs are short-term debt authorized by the school committee, which are incurred in anticipation of receiving revenue for that fiscal year. The debt must be paid off one year from the date the note is issued. During the period reviewed, WRSD prepared monthly revenue and expense projections to determine the amount it needed to borrow for each year. For fiscal years 2011 and 2013, the district borrowed \$13.8 and \$17.5 million, respectively, in July and repaid the notes the following June. For fiscal year 2012, WRSD borrowed \$11.4 million in July and \$2.6 million in March; it repaid the \$2.6 million in May 2012 and the \$11.4 million in June 2012.

PROJECT OBJECTIVES, SCOPE, AND METHODOLOGY

At the request of the Wachusett Regional School District (WRSD),¹ the Office of the State Auditor conducted a review of the district's cash activity and cash flow trends for the period July 1, 2010 through June 30, 2013 to determine whether WRSD could have operated without using revenue anticipation notes (RANs). Each fiscal year, WRSD uses a RAN to assist with its cash flow needs throughout the year.

We conducted this review in accordance with the attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements that are contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. A review is substantially smaller in scope than an audit and consists primarily of inquiries of the district's management and analytical procedures applied to financial data. Because our review of WRSD's cash activities does not constitute an audit, we did not express an opinion on them. However, nothing we found in our review caused us to believe that the information that WRSD provided concerning its cash activities was not presented in a fair and accurate way that allowed us to perform our cash analysis and determine WRSD's need for RANs to fund its activities.

To accomplish our objective, we performed the following activities:

- We met with WRSD's administrative staff, which is responsible for all accounting records, to gain an understanding of WRSD's business operations.
- We reviewed previously audited financial reports prepared by WRSD's audit firm to determine whether they contained any issues related to our review.
- We prepared a schedule of WRSD's payments received from its member towns, quarterly state-aid payments, and RANs and bond anticipation notes² issued and repaid within the review period. For these payments, we traced all corresponding receipts to the appropriate bank statements for agreement. We also verified all RAN processing fees using source documents.
- We reviewed the cash analysis prepared by WRSD to determine the amount of money it obtained in RANs, as well as school committee approvals for issuance and repayment of the RANs and bond anticipation notes.
- We performed a walkthrough of the cash reconciliation process with the treasurer and the finance manager to gain an understanding of the procedures in this area.
- We obtained WRSD's monthly bank reconciliations, which were supported by the finance manager's monthly cash balance report and reconciliation, financial system reports, and bank

¹ On October 28, 2013, the Wachusett Regional School Committee voted to request an audit. On February 10, 2014, the committee authorized an encumbrance not to exceed \$10,000 to pay for the audit.

² Notes issued before the issuance of long-term debt.

statements, for each of the 36 months under review. We compared the total reconciled cash balance for each month to the general ledger cash trial balance.

- We tested six bank reconciliations for the months of March 2011, June 2011, September 2011, June 2012, December 2012, and June 2013, which involved tracing cash balances from the reconciliations to the bank statements, verifying that they agreed, and reviewing supporting documentation for any significant reconciling items. In addition, we ensured that the total reconciled cash balance agreed to the general ledger trial balance for the six months tested. For three of the six months tested (the year-end June reports), we confirmed that the balances agreed with the unreconciled cash balances identified by the outside independent auditors.
- We analyzed the cash trends of WRSD's General Fund for the period July 1, 2010 through June 30, 2013 and created financial models to test whether it could fund its operations without using RANs.
- We contacted 23 regional school districts to obtain information regarding the districts' use of RANs to supplement their cash balances, including when and how often they receive payments from their member communities.

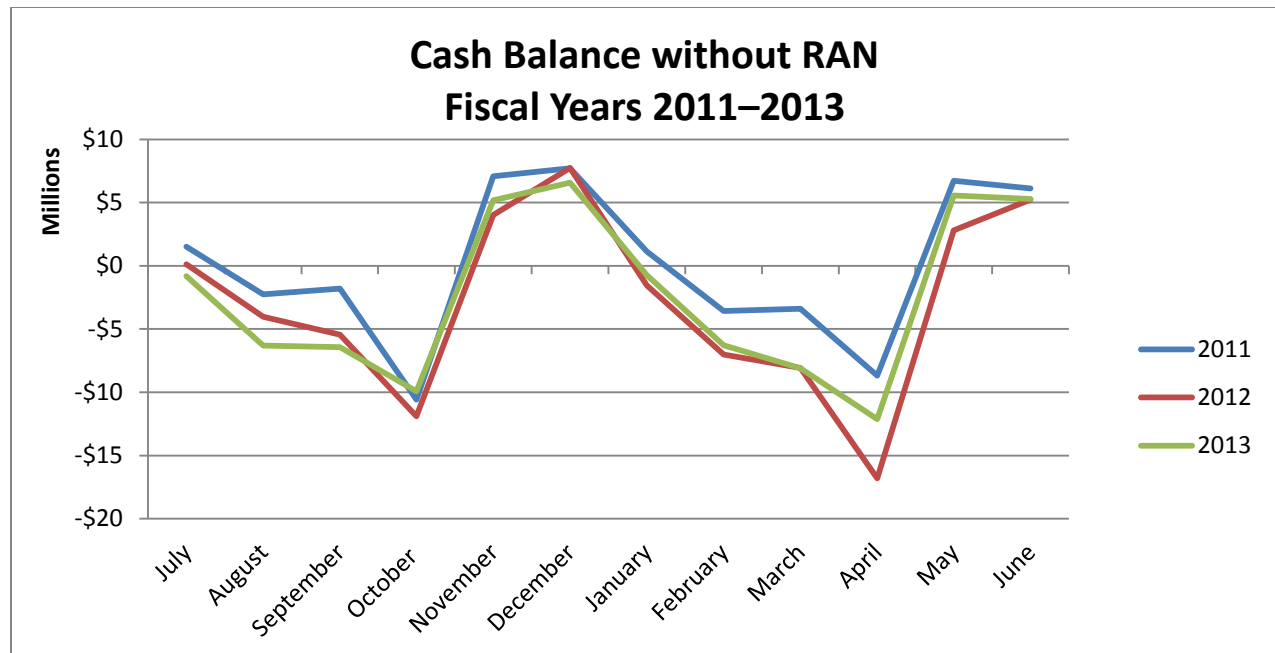
The Review Results section of this report summarizes the various scenarios we developed in order to analyze WRSD's cash activities and evaluate different options for WRSD as it considers operating without using RANs in future years.

Our report is intended solely for the information and use of the WRSD administration and school committee; it is not intended to be used by anyone other than these specific parties.

REVIEW RESULTS

We reviewed the fiscal operations of the Wachusett Regional School District (WRSD) through an analysis of its General Fund account during the period July 1, 2010 through June 30, 2013 to determine whether WRSD could operate without using revenue anticipation notes (RANs) to fund its operations. Annually, as part of the budget process, WRSD projects the need for a RAN, beginning by preparing a schedule of monthly receipts and expenditures based on actual activity during the prior fiscal year. It then multiplies these balances by a factor equal to the projected increase in the overall budget. In fiscal year 2011, the receipts and expenditures were multiplied by a factor of 3%; in fiscal year 2013, the factor was 4.4%. We were unable to determine the factor used in fiscal year 2012 because the budgetary documents we reviewed did not disclose it and WRSD no longer employs the business manager who prepared the analysis. Based on the projected activity, and working with its financial advisor and bond counsel, WRSD determines the amount of RAN funding that is needed and solicits bids for this financing. The WRSD treasurer makes the awards to bidders for the financing, subject to school committee approval.

To determine whether the district's projected RAN needs were reasonable, we first obtained the district's month-end cash balances for the 36 months under review. In order to ensure that these balances accurately reflected the month-end balances, we obtained the finance manager's reconciliation of all cash reports for each month and compared the total reconciled cash balance to the general ledger trial balance. We found no exceptions. As indicated in the Project Objectives, Scope, and Methodology section of our report, for 6 of the 36 months under review, we tested the bank reconciliations and found no exceptions. During 3 of those 6 months, a year-end (June) report was issued; for these reports, we found that the balances agreed with the unreconciled cash balances identified by the outside independent auditors. After performing these procedures to obtain assurance of the accuracy of WRSD's cash balances, we used the general fund balances to perform our analysis. We adjusted the actual month-end balances by removing the RAN funds received, and the corresponding repayments, from the fiscal-year receipts and disbursements. As detailed in the chart below, without the RANs, 58% of the adjusted General Fund month-end balances were negative, indicating a need for RANs.



Proposed Alternatives to Borrowing a RAN

We reviewed monthly activities and month-end balances in the General Fund account, eliminated the RANs received and repaid, and reallocated the community and state aid payments to different payment periods to form various models to determine whether WRSD could operate without RANs. Based on our review, using the cash activity for fiscal years 2011 through 2013, we found that WRSD could have operated without RANs and saved \$476,722 in costs associated with borrowing the RANs if had it received its community assessment funding earlier in the fiscal year.

As shown in the charts below, we identified seven scenarios, based on the actual activity during fiscal years 2011 through 2013, in which a change in the timing of the community assessment payments or state aid makes a RAN unnecessary:

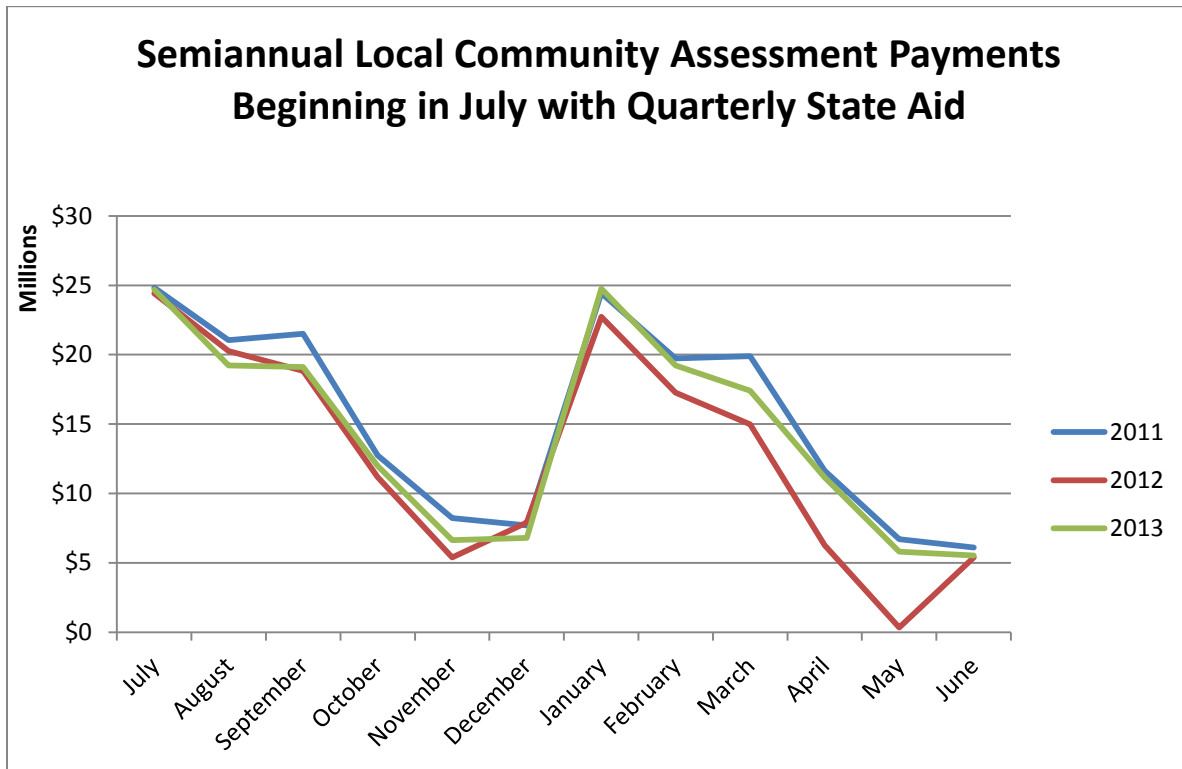
- Scenario 1: semiannual community assessment payments starting in July with quarterly state aid payments
- Scenario 2: quarterly community assessment payments starting in July with quarterly state aid payments
- Scenario 3: semiannual community assessment payments starting in July with monthly state aid payments
- Scenario 4: semiannual community assessment payments starting in August with monthly state aid payments
- Scenario 5: quarterly community assessment payments starting in July with monthly state aid payments

- Scenario 6: monthly community assessment payments starting in July with monthly state aid payments
- Scenario 7: every-other-month community assessment payments starting in July with monthly state aid payments

It should be noted that currently, the WRSD communities are scheduled to pay their community assessments in May and November, and changing the timing of their community payments would require approval by the communities through an amendment to the district agreement. The district agreement establishes the rights and responsibilities of the member communities and the district's school committee. The seven scenarios we analyzed are discussed in the following sections.

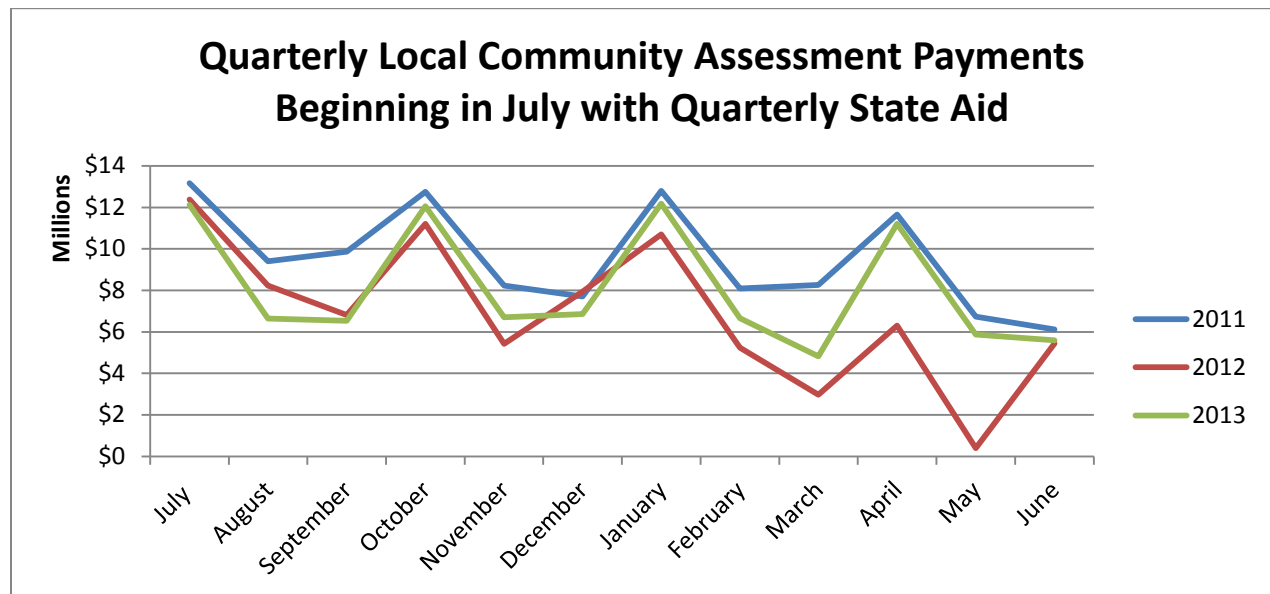
Scenario 1

Initially, we analyzed a change in the timing of the district’s semiannual community assessment payments from May and November to January and July. This alternative provided the district with initial funding at the beginning of the fiscal year, and as shown below, the result was month-end balances greater than \$5 million (with the exception of May 2012 due to a delay in the receipt of revenue and an increase in expenses).



Scenario 2

As noted in the chart below, we found that changing the timing of the community assessment payments to quarterly payments starting in July, while keeping the state aid payments quarterly (as was the practice in fiscal years 2011 through 2013), provided consistency in balances over the 36 months reviewed. In this scenario, WRSD community assessment payments and state aid totaled approximately \$18 million quarterly. The average month-end balances for fiscal years 2011 through 2013 were \$9,551,454, \$6,925,478, and \$7,776,696, respectively.



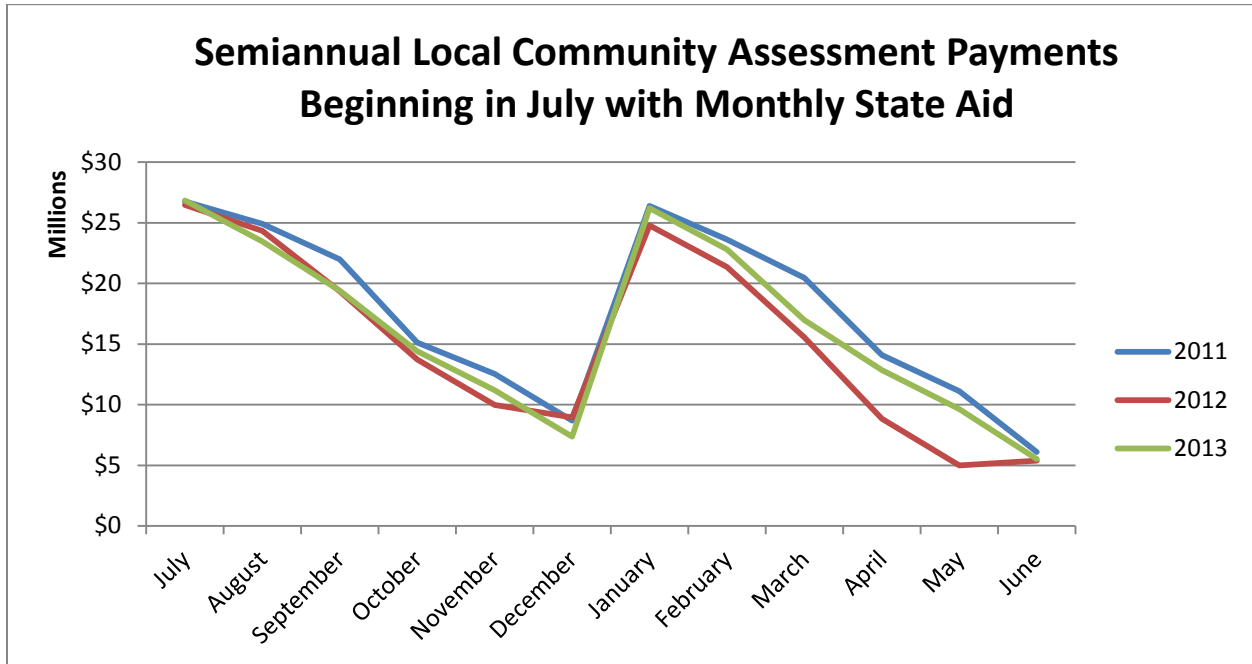
Alternatives with Monthly State Aid

Because the state aid portion of the district's funding changed to monthly payments beginning in fiscal year 2014, we also analyzed what the district's cash flow activity would have looked like during our review period using monthly state aid payments as opposed to the quarterly payments it actually received. We did this to determine the effect that changing the timing of the state aid payments would have on the district's month-end cash balances. In the scenarios that follow, we also adjusted the timing of the current semiannual community assessment payments to gauge the additional effect of those adjustments in our monthly state aid funding scenario. We analyzed scenarios with payments at the following times:

- July and January
- August and February
- quarterly beginning in July
- monthly
- every other month

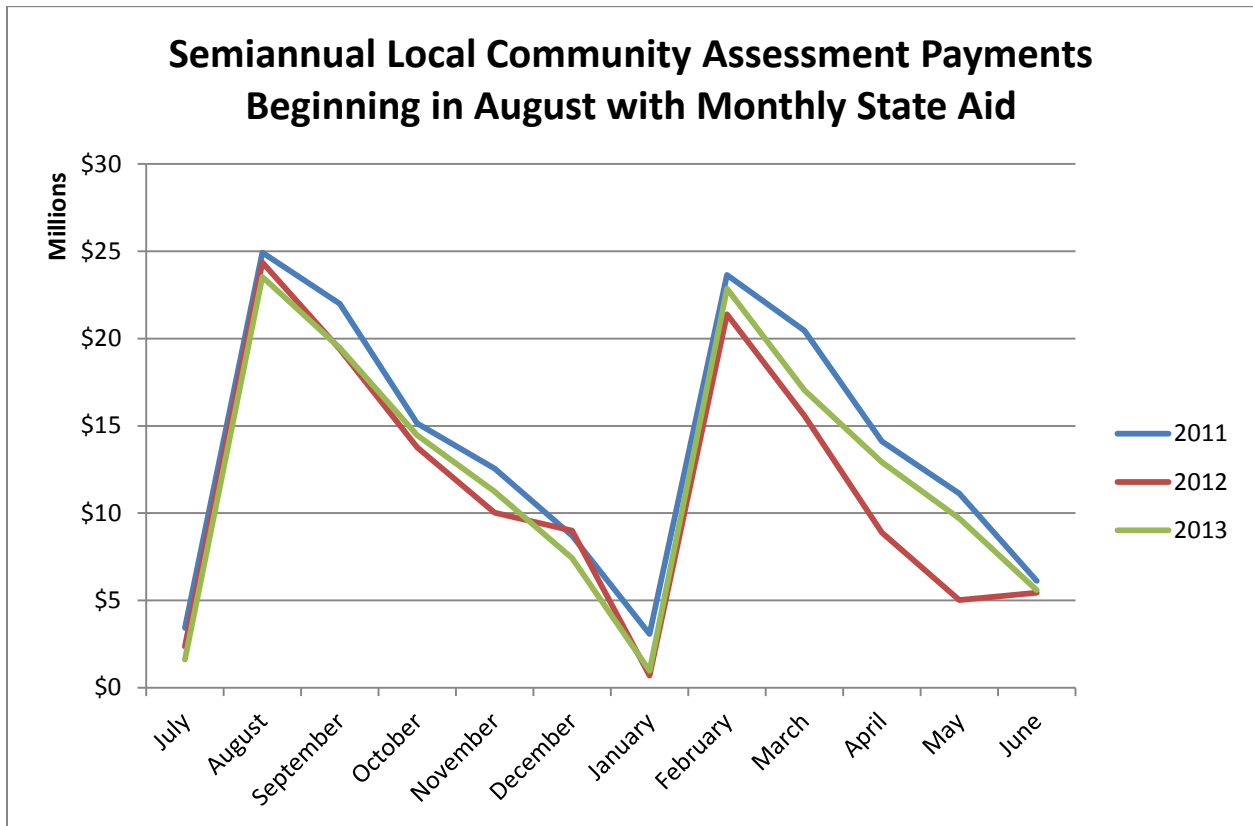
Scenario 3

Under all of these models, all month-end balances during the review period remained positive, indicating that a RAN was not necessary. The average month-end balance with semiannual local community payments beginning in July, as shown in the chart below, was \$16.4 million, with the balances ranging from \$4.9 million to \$26.8 million.



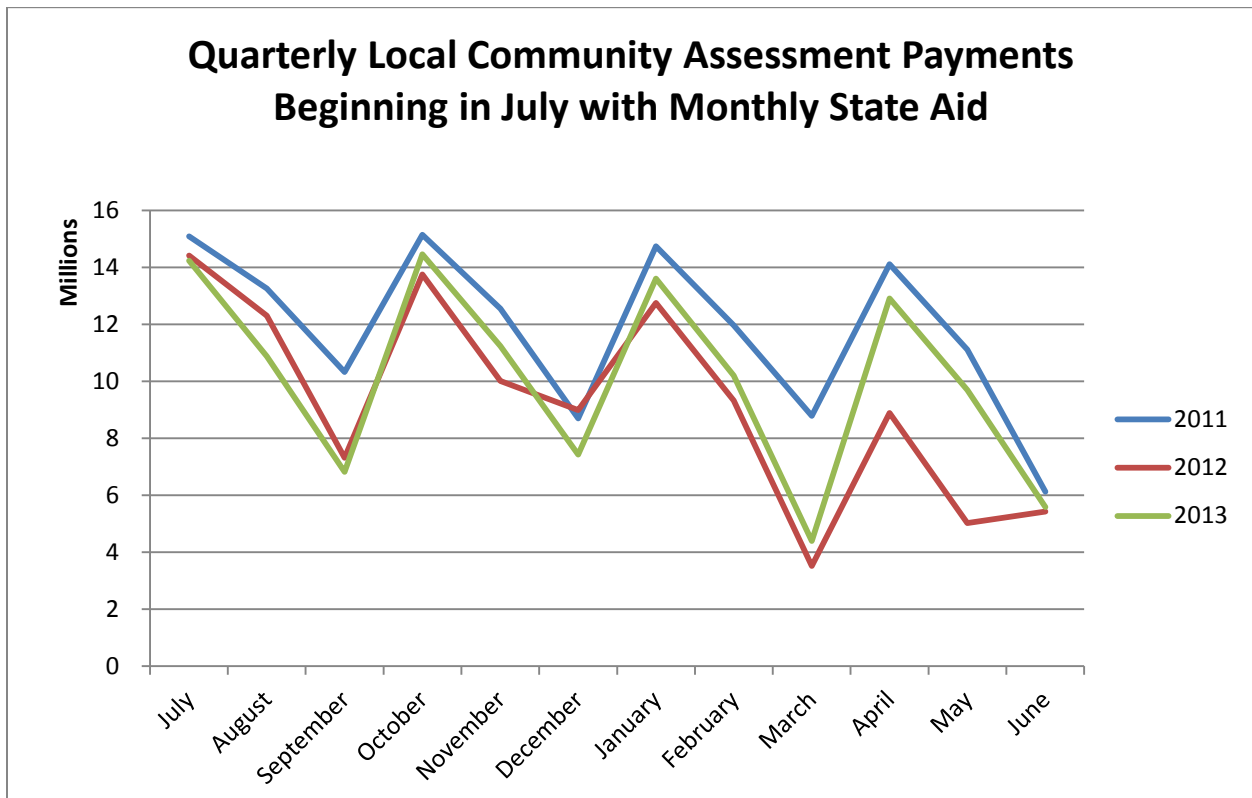
Scenario 4

The analysis of General Fund ending balances for semiannual payments beginning in August indicated that WRSD could have operated without a RAN during our review period. A consistent pattern formed when we used this approach: funds peaked when received and continued to decrease to a low point in July and January, just before receipt of the community payments in August and February. With this approach, the average monthly balance for the review period was \$12.4 million. The lowest balance during the period was \$695,286, in January 2012.



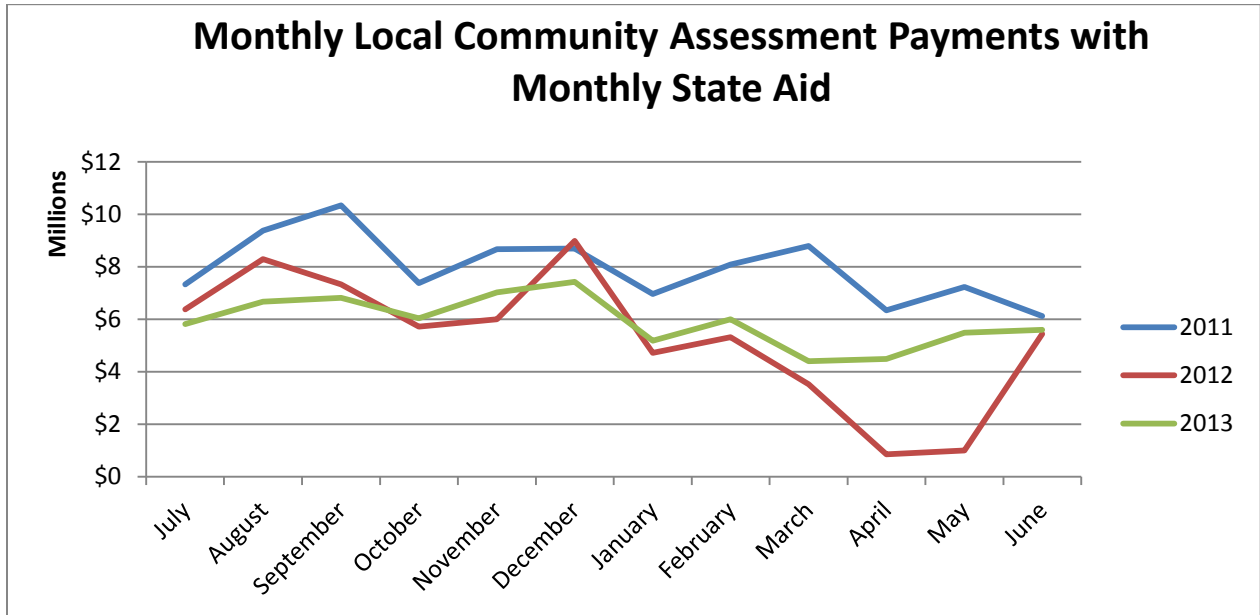
Scenario 5

We found that changing the timing of the community assessment payments to quarterly, starting in July in combination with the monthly state aid payments, provided consistency in balances in the General Fund over the 36 months reviewed, as noted in the chart below. With this approach, quarterly community assessment payments were approximately \$12 million and monthly state aid was approximately \$2 million. We found that the average monthly balances for fiscal years 2011 through 2013 were \$11,815,013, \$9,278,121, and \$10,067,109, respectively. The lowest balance during the period was \$3.5 million, in March 2012.



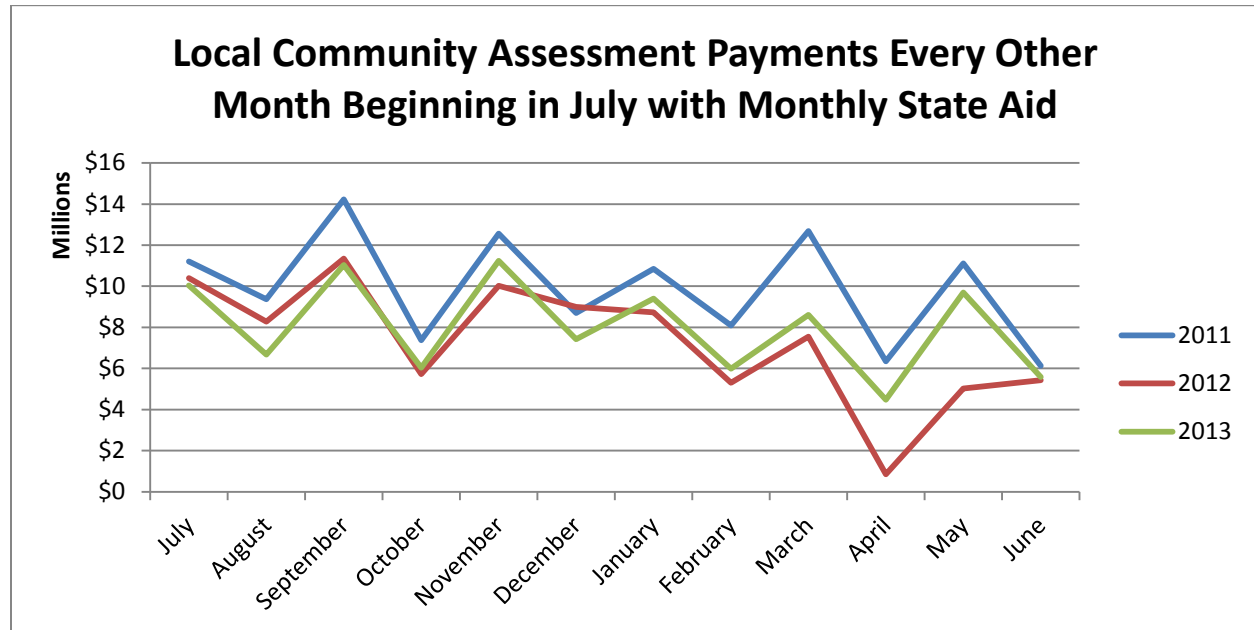
Scenario 6

Next, we considered a model that required monthly payments for both local community assessment and state aid payments. Monthly community payments and state aid totaled approximately \$6 million in this case. While the balances were positive and remained relatively stable throughout the period, there were a few months in fiscal year 2012 that had significantly lower balances, as seen in the chart below.



Scenario 7

The last model involved receiving community payments every other month starting in July. This would allow for frequent payments and stable account balances, as detailed below.



We considered several other alternatives, such as community payments quarterly starting in August or September, or community payments every other month starting in August; however, none of these options provided consistently positive account balances throughout our review period. We also considered the option of moving the Town of Holden's payment schedule to July and January while leaving the other communities with their semiannual payments in May and November. In this case, all the monthly balances were positive except that of April 2012. It appeared that community funding currently paid each May had been partially paid in April in fiscal years 2011 and 2013, giving those months a positive month-end account balance, and the absence of those receipts in April 2012 had caused a negative account balance.

Survey of Other Districts

After determining possible funding alternatives for WRSD, we contacted other school districts to determine how they were funded and whether they required an annual RAN. We contacted 23 school districts with at least three member communities each, excluding vocational and agricultural schools from our sample. Eighteen districts responded to our request for information. As outlined below, we found that 13 of the 18 districts sampled received quarterly assessment payments from their member communities and only 1 of the 13 required a RAN. Of the remaining 5 districts, 1 district received community assessment payments monthly, 2 received them every other month, and 2 received them five times per year. The 2 that received payments five times per year used RANs. The RANs issued by these three districts were for \$1 million to \$2 million per year.

Regional School District	Number of Communities in the District	Frequency of Community Payments / Starting Date	RAN Required?	Amount of RAN
Amherst-Pelham	4	Quarterly/August	No	–
Berkshire Hills	3	Quarterly/October	Yes	\$2 million
Frontier	4	Quarterly/July	No	–
Gateway	7	Quarterly/August	No	–
Gill-Montague	3	Quarterly/September	No	–
Hampshire	5	Quarterly/July	No	–
King Philip	3	Quarterly/September	No	–
Martha's Vineyard	5	Quarterly/July	No	–
Masconomet	3	Quarterly/September	No	–
Mohawk Trail	8	Every other month / August	No	–
Nauset	4	Quarterly/September	No	–
North Middlesex	3	Quarterly/August	No	–
Pentucket	3	Monthly/July	No	–
Pioneer Valley	4	Five times per year / August	Yes	\$1 million
Quabbin	5	Five times per year / July	Yes	\$1–2 million
Ralph C. Mahar	4	Quarterly/September	No	–
Silver Lake	3	Quarterly/July	No	–
Tantasqua	5	Every other month / July	No	–

CONCLUSIONS

Currently, the Wachusett Regional School District (WRSD) uses revenue anticipation notes (RANs) to manage the cash balance in its General Fund. Annually, to provide supporting documentation to its financial advisor and bond counsel, WRSD prepares cash forecasts using the previous year's activity multiplied by the percentage the budget is increasing. Each year, the school committee authorizes the use of a RAN, which provides the district with cash to begin its fiscal year. Under the current district agreement, the five towns within WRSD provide semiannual payments based on their proportional shares of the budget. These payments are scheduled to be made in November and May. In addition to RANs and community payments, WRSD's other large revenue source is state aid payments. During fiscal years 2011 through 2013, WRSD received state aid payments quarterly. Currently, as of 2014, the Commonwealth pays state aid monthly.

RANs are a key component in WRSD's cash management. Without a RAN each year, WRSD would have many months with negative month-end balances and would not be able to meet its payroll commitments and pay its bills consistently. WRSD will continue to need RANs unless it changes its community payment schedule, which would require its member communities to change their district agreement. Based on our analysis of the cash balances during our review period, the district requires an infusion of cash each July, which it currently obtains through a RAN. With monthly state aid payments, which are the current practice, we identified five scenarios in which the district could have operated without using RANs. Based on the data reviewed, if one of the five scenarios had been adopted and state aid payments had been paid monthly in fiscal years 2011 through 2013, the district would not have required a RAN and would therefore have saved borrowing costs that totaled \$476,722.

To change its current local community funding schedule, WRSD would require a change in the district agreement. According to the website of the Town of Rutland's treasurer / tax collector, many communities in the Commonwealth have changed to quarterly tax billing, allowing the towns to manage their cash better and avoid costly short-term borrowing. However, it is unclear whether WRSD communities would be able to adjust their payment schedules and what effects those adjustments might have on the local communities' own cash positions. Our review of the real estate tax billing cycle for WRSD's five member communities indicated that three communities bill quarterly, with payments due in August, November, February, and May, and the remaining two communities bill semiannually, with payments due in October and April. If the cost of RANs is to

be avoided in the future, it may be beneficial for the district and the member communities to consider making revisions to the assessment payment schedule.