

**KEARSARGE REGIONAL SCHOOL DISTRICT**

New London, New Hampshire

Financial Statements

June 30, 2007

# KEARSARGE REGIONAL SCHOOL DISTRICT

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## Table of Contents June 30, 2007

<b>Independent Auditor's Report</b>	4-5
<b>Management's Discussion and Analysis</b>	7-20
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements:	
Statement of Net Assets	22
Statement of Activities	23
Fund Financial Statements:	
Balance Sheet - Governmental Funds	24
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	25
Statement of Revenues, Expenditures and Changes in Fund Balances	
Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	27
Fiduciary Funds:	
Statement of Fiduciary Net Assets	28(a)
Statement of Changes in Fiduciary Net Assets - Private Purpose Trust Funds	28(b)
Notes to Basic Financial Statements	29-42
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule - General Fund	44
Notes to Required Supplementary Information	46-47
<b>Other Supplementary Information</b>	
Combining Balance Sheet - Nonmajor Governmental Funds	49
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	
Nonmajor Governmental Funds	50
<b>Federal Awards Supplementary Information</b>	
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	52-53
Report on Compliance with Requirements Applicable to each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	54-55
Schedule of Expenditures of Federal Awards	57
Notes to Schedule of Expenditures of Federal Awards	59
Schedule of Findings and Questioned Costs	61-67
Summary Schedule of Prior Audit Findings	68
Management Views and Corrective Action Plan (Submitted Separately by Management)	

## **INDEPENDENT AUDITOR'S REPORT**

# **GRZELAK AND COMPANY, P.C.**

## **Certified Public Accountants**

Members – American Institute of CPA's  
Members – New Hampshire Society of CPA's

Post Office Box 8  
Laconia, New Hampshire 03247  
Tel 524-6734 Fax 524-6071

### **INDEPENDENT AUDITOR'S REPORT**

To the School Board  
Kearsarge Regional School District  
New London, New Hampshire

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kearsarge Regional School District, as of and for the year ended June 30, 2007, which collectively comprise the district's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kearsarge Regional School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Kearsarge Regional School District, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 17, 2008, on our consideration of the Kearsarge Regional School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 7 through 20 and 45 through 48, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kearsarge Regional School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal 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 of Kearsarge Regional School District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Grzelak and Co., P.C.*

**GRZELAK AND COMPANY, P.C., CPA's**  
Laconia, New Hampshire  
January 17, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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The Superintendent of Schools and the Business Manager, as "management" of the Kearsarge Regional School District (the "District"), a K-12 local education authority located in the County of Merrimack, New Hampshire, submits this section of the District's annual financial report in order to present our discussion and analysis of the District's financial performance during the year ended June 30, 2007.

Our discussion and analysis is in accordance with the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) for the year ended June 30, 2007. Please read it in conjunction with the financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

The District's total combined net assets, which increased between June 30, 2006 and 2007 by \$2,300,403 or 23% to \$12,299,325. Net assets consisted of: \$13,045,575 invested in capital assets net of related debt; \$2,394,159 restricted amounts, net, for capital projects, capital reserves, and other non-major funds for purposes of each established fund; and, an unrestricted negative net asset balance of (\$3,140,409). Assets increased due to the Middle School Capital Project of which \$13,595,605 was in investment of the bond proceeds and \$14,124,733 was construction in progress. Unrestricted net asset is a negative of (\$3,140,409). This is the result of having long-term commitments that are more than currently available resources. This is primarily due to the recording of the District's \$2,479,820 long-term liability for early retiree's payments (\$1,696,918) and related healthcare (\$782,902) under the newly adopted provisions of Governmental Accounting Standards Board (GASB) Statement 47.

- At June 30, 2007, the District had \$29,037,885 of long-term obligations (\$32,563,413 in total obligations less the current portion of \$3,525,528) as summarized in Exhibit C-2. This amount represents a net increase of 279 % over the prior year. On July 20, 2006 the District received \$24,719,000 from the issuance of general obligation bonds with a face value of \$24,450,150 for the construction of the Middle School at a premium of \$268,850 (which is amortized using the straight-line method over the term of the bond as an annual reduction of interest expense on the scheduled interest and principal payment basis). The bond carries true interest coupon rates from 4.00% to 5.00% and matures on August 15, 2026.
- The total cost of all governmental activities this year was \$27,243,753; the total net cost was \$25,365,308. The primary financing for these activities of the District was as follows: The amount that was paid by taxpayers through property taxes was \$22,245,580; which consisted of \$15,523,596 paid in the form of local property taxes and \$6,721,984 paid in the form of property taxes under the State of New Hampshire state-wide education tax system for the annual school district assessment. An additional amount of \$2,540,321 was received from the State of New Hampshire under the "adequacy grant" provisions of the State's educational funding system, which in addition to other State funding sources includes state-wide property taxes collected from other local governments.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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- **OVERVIEW OF THE FINANCIAL STATEMENTS**

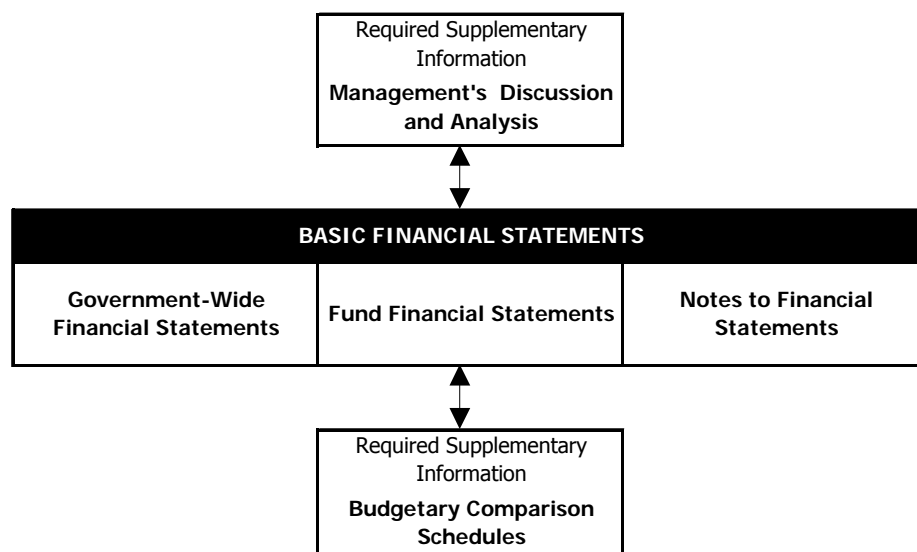
This discussion and analysis is intended to serve as an introduction to the District's annual report, which consists of a series of basic financial statements, notes and related financial or compliance information. The District's financial statements are comprised of six primary sections or components: (1) basic government-wide financial statements, (2) basic fund financial statements, (3) notes to basic financial statements, (4) required supplementary information, (5) notes to required supplementary information, and (6) federal awards.

The basic financial statements include two kinds of statements that present different views of the District based upon measurement focus and basis of accounting.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements. The governmental funds statements tell how the District's services were financed in the short term as well as what remains for future spending. Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Exhibit A-1 shows how the required parts of this annual report are arranged and related to one another.

**Exhibit A-1**





# MANAGEMENT'S DISCUSSION AND ANALYSIS

Exhibit A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain.

**Exhibit A-2**

	Government-Wide	Fund Statements	
		Governmental	Fiduciary
<b>SCOPE</b>	Entire District government (except fiduciary funds)	All activities of the District that are not proprietary or fiduciary	Instances in which the District is the trustee or agent for someone else's resources
<b>REQUIRED FINANCIAL STATEMENTS</b>	Statement of Net Assets	Balance Sheet	Statement of Fiduciary Assets
	Statement of Activities	Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Changes in Fiduciary Net Assets
<b>ACCOUNTING BASIS</b>	Accrual	Modified Accrual	Accrual
<b>MEASUREMENT FOCUS</b>	Economic Resources	Current Financial Resources	Economic Resources
<b>TYPE OF INFORMATION ASSETS AND LIABILITIES</b>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both short-term and long-term; the Agency funds do not currently have capital assets although they can
<b>TYPE OF INFORMATION REVENUES, EXPENSES, AND EXPENDITURES</b>	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 payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## District Wide Financial Statements:

The first two basic statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status and report net assets and changes in them. Net asset is the difference between assets and liabilities and is one way to measure the District's financial health, or financial position.

- Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating, respectively.
- In order to assess the overall health of the District other nonfinancial factors should also be considered, such as changes in the District's general revenues (principally the school district assessment which is derived by local and statewide property taxes and general state aid), and federal and state intergovernmental revenues (grant programs); the condition of the District's buildings and other depreciable property (likelihood of emergency repairs or maintenance); current and long-term student population information; and other items subject to significant financial or budgetary uncertainty (out-of-District special education enrollment and the related high cost potential of the mandated services).

The government-wide financial statements of the District are included in the Governmental Activities category. Most of the District's basic services are included here, such as instruction, support services (including general and executive administration), and food services. General revenues, including the school district assessment, state aid, and federal and state grant programs, food service sales and federal reimbursements finance most of these activities.

## Fund Financial Statements:

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes. State law, regulation or bond covenant requires some funds, while others are established to comply with the requirements of grantors. The District has two kinds of funds:

Governmental Funds - Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationships (or differences) between them.

Fiduciary Funds - The District is responsible for other assets that, because of an agency arrangement, can be used only for the intended purposes. These funds are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## CONDENSED FINANCIAL INFORMATION AND ANALYSIS OF THE DISTRICT AS A WHOLE

### Net Assets

Exhibit B-1 shows the composition of the District's total combined net assets, which increased between June 30, 2006 and 2007 by \$2,300,403 or 23% to \$12,299,325.

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### Exhibit B – 1 NET ASSETS

	Governmental Activities 2005-2006 (restated)	Governmental Activities 2006-2007	Change
<b>Assets</b>			
Current and other assets	\$ 2,302,467	\$ 16,912,962	\$ 14,610,495
Noncurrent assets	18,565,781	32,618,428	14,052,647
<b>Total assets</b>	20,868,248	49,531,390	28,663,142
<b>Liabilities</b>			
Current liabilities	3,180,247	8,194,180	5,013,933
Noncurrent liabilities	7,689,079	29,037,885	21,348,806
<b>Total liabilities</b>	10,869,326	37,232,065	26,362,739
<b>Net Assets</b>			
Investment in capital assets, net of related debt	12,524,944	13,045,575	520,631
Restricted	293,174	2,394,159	2,100,985
Unrestricted	(2,819,196)	(3,140,409)	(321,213)
<b>Total net assets</b>	<u>\$ 9,998,922</u>	<u>\$ 12,299,325</u>	<u>\$ 2,300,403</u>

A portion of the net assets are either invested in capital assets or restricted as to the purposes they can be used for (1) the District's investment in capital assets (land and land improvements, construction in progress, buildings, furniture and equipment and technology equipment, net of accumulated depreciation), net of related debt, is the largest component of the total combined net assets; and, (2) restricted net assets represent capital project, capital reserves and specific fund net asset amounts that are not available for discretionary spending.

Assets increased due to the Middle School Capital Project of which \$13,595,605 was in investment of the bond proceeds and \$14,124,733 was construction in progress. Unrestricted net asset is a negative of (\$3,140,409). This is the result of having long-term commitments that are more than currently available resources. This is primarily due to the recording of the District's \$2,479,820 long-term liability for early retiree's payments (\$1,696,918) and related healthcare (\$782,902) under the newly adopted provisions of Governmental Accounting Standards Board (GASB) Statement 47.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Change in Net Assets

The District's total revenues were \$29,544,156 while total expenses were \$27,243,753 resulting in a change in net assets of \$2,300,403.

## Revenues

Exhibit B-2 shows that a significant portion, 89%, of the District's total revenues came from the school district assessment (53%) and State of New Hampshire source intergovernmental revenues (36%) primarily derived from local and state-wide property taxes and other state aid programs. Investment income and Operating grants and contributions each provided 4% of total revenues, 2% related to charges for services.

- School district assessment, 53% for the fiscal years ended June 30, 2007 and 2006. An increase of 14% (\$1,891,482 more) over the prior year amount.
- State of New Hampshire source intergovernmental revenues, 36% and 38% for the fiscal years ended June 30, 2007 and 2006, respectively, a decrease of 2% in the percentage of total revenues. An increase of 9% (\$868,177 more) over the prior year amount.
- Operating grants and contributions, 4% for the fiscal years ended June 30, 2007 and 2006. An increase of 11% (\$118,282 more) over the prior year amount.
- Revenues for charges for services, 2% and 3% for the fiscal years ended June 30, 2007 and 2006, respectively, a decrease of 1% of total revenues and a decrease of 4% (\$28,518 less) from the prior year amount.
- Investment income, 4% and 1% for fiscal years ended June 30, 2007 and 2006, respectively, an increase of 3% in the percentage of total revenue's, an increase of 802% of total revenues (\$1,115,617 more) over the prior year amount primarily due to the Middle School Capital investment of bond proceeds.

## Exhibit B-2 SOURCES OF DISTRICT REVENUES

Governmental Activities						
	2006	%	2007	%	Change	%
<b>Program Revenues</b>						
Charges for services	\$ 707,977	3%	\$ 679,459	2%	\$ (28,518)	-4%
Operating grants and contributions	1,080,704	4%	1,198,986	4%	118,282	11%
<b>General Revenues</b>						
School district assessment	13,632,114	53%	15,523,596	53%	1,891,482	14%
Local sources	124,060	0%	115,133	0%	(8,927)	-7%
State of New Hampshire sources	9,808,521	38%	10,676,698	36%	868,177	9%
Federal sources - Medicaid	138,720	1%	95,479	0%	(43,241)	-31%
Investment income	139,188	1%	1,254,805	4%	1,115,617	802%
	<u>\$ 25,631,284</u>	<u>100%</u>	<u>\$ 29,544,156</u>	<u>100%</u>	<u>\$ 3,912,872</u>	<u>15%</u>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Expenses

Exhibit B-3 shows that 91% of the District's total expenses were for instructional and support services.

- Instruction expenses, 61% and 65% for the fiscal years ended June 30, 2007 and 2006, respectively, a decrease in the percentage of total expenses of 4%, however instructional services did increase less than 1% (\$32,756 more) over the prior year amount.
- Support service expenses, 30% and 29% for the fiscal years ended June 30, 2007 and 2006 respectively, an increase in the percentage of total expenses of only 1%, however support services increased 9% (\$669,216 more) over the prior year amount.
- Food service program expenses, 3% for the fiscal years ended June 30, 2007 and 2006, did not change as a percentage of total expenses, but did decrease less than 1% (\$620 less) from the prior year amount.
- Unallocated interest expense, 4% and 1% for the fiscal years ended June 30, 2007 and 2006 respectively, an increase in the percentage of total expenses of 3% and an increase of 214% (\$697,362 more) over the prior year amount.
- Unallocated depreciation expense, 2% for the fiscal years ended June 30, 2007 and 2006, did not change as a percentage of total expenses, did increase 12% (\$72,165 more) over the prior year amount.

### Exhibit B-3 DISTRICT EXPENSES

#### Governmental Activities

	<u>2006</u>	<u>%</u>	<u>2007</u>	<u>%</u>	<u>Change</u>	<u>%</u>
<b>Functions / Programs</b>						
Instruction	\$ 16,713,520	65%	\$ 16,746,276	61%	\$ 32,756	0%
Support services	7,421,713	29%	8,090,929	30%	669,216	9%
Food service program	730,824	3%	730,204	3%	(620)	0%
<b>Unallocated</b>						
Interest	325,214	1%	1,022,576	4%	697,362	214%
Depreciation	581,603	2%	653,768	2%	72,165	12%
	<u>\$ 25,772,874</u>	<u>100%</u>	<u>\$ 27,243,753</u>	<u>100%</u>	<u>\$ 1,470,879</u>	<u>6%</u>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## Governmental Activities

Exhibit B-4 presents the net cost of the District's largest functions based upon the total expense, less charges for services and operating grants and contributions, of each function. The net cost reflects the amount that was funded by general revenues (principally the school district assessment which is derived by local and statewide property taxes and general state aid).

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**Exhibit B-4  
TOTAL AND NET COST OF SERVICES**

	2006		2007	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
<b>Functions / Programs</b>				
Instruction	\$ 16,713,520	\$ 15,629,651	\$ 16,746,276	\$ 15,560,836
Support services	7,421,713	7,421,713	8,090,929	8,090,929
Food service program	730,824	26,012	730,204	37,199
<b>Unallocated</b>				
Interest	325,214	325,214	1,022,576	1,022,576
Depreciation	581,603	581,603	653,768	653,768
	<u>\$ 25,772,874</u>	<u>\$ 23,984,193</u>	<u>\$ 27,243,753</u>	<u>\$ 25,365,308</u>

The total cost of all governmental activities this year was \$27,243,753; the total net cost was \$25,365,308. The primary financing for these activities of the District was as follows:

### Property taxes

- The amount that was paid by taxpayers through property taxes was \$22,245,580; which consisted of \$15,523,596 paid in the form of local property taxes and \$6,721,984 paid in the form of property taxes under the State of New Hampshire state-wide education tax system for the annual school district assessment.
- An additional amount of \$2,540,321 was received from the State of New Hampshire under the "adequacy grant" provisions of the State's educational funding system, which in addition to other State funding sources includes state-wide property taxes collected from other local governments.

### Charges for Services

- Tuition for regular and special education was received in the amount of \$122,015.
- Food service revenues of \$734,495 consisted of food service sales in the amount of \$559,114, federal and state food nutrition program operating contributions (reimbursement and commodities) of \$175,381. A General Fund transfer in the amount of \$23,500 was made as an operating subsidy.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## ANALYSIS OF BALANCES AND TRANSACTIONS OF THE DISTRICT'S INDIVIDUAL FUNDS

### **General Fund**

The general fund balance decreased \$545,072 during the year from a balance of \$799,614 at June 30, 2006 to a \$254,542 fund balance at June 30, 2007. This was attributed to several factors. The budgetary basis revenues actual was in excess of estimated in the amount of \$158,652. Total actual expenditures were less than authorized appropriations by \$95,890 even after transfers out to other funds were made in excess of the budgeted amount by \$194,465. The June 30, 2007 ending fund balance consisted of reserves for encumbrances in the amount of \$54,092 and unreserved, undesignated fund balance, in the amount of \$175,450 and \$25,000 in designated fund balance. State law mandates that unreserved, undesignated fund balance be used to reduce the school district assessment in the subsequent year.

### **Major Special Revenue Funds**

#### Capital Project Fund - Middle School

On July 20, 2006 the District received \$24,719,000 from the issuance of general obligation bonds with a face value of \$24,450,150 for the construction of the Middle School at a premium of \$268,850. During the year the District earned \$1,102,032 in investment income (net of \$194,287 of recorded arbitrage rebate liability on the investment of tax exempt bond proceeds above the interest rate on the bonds in accordance with U.S. Treasury regulations). During the year the District expended \$14,124,733 for construction costs. Of the ending fund balance of \$11,193,640 \$8,366,575 is reserved for contract encumbrances and \$2,827,065 for the balance of the construction costs.

### **Nonmajor Funds**

#### Food Service Fund

The food service fund is classified as a nonmajor special revenue fund and is aggregated in the category Nonmajor Governmental Funds in the basic financial statements. The food service fund balance increased \$24,791 during the year from a deficit fund balance of \$17,291 at June 30, 2006 to a fund balance of \$7,500 (representing the amount of reserved fund balance for inventory) at June 30, 2007. The increase was primarily the result of a General Fund transfer in the amount of \$23,500 that was made as an operating subsidy.

#### Capital Reserve Fund

Expendable capital and maintenance reserve funds (established by voters at an annual school district meeting as trust funds in accordance with statutory requirements) are classified as special revenue funds for the basic financial statements. The capital reserve fund balances increased \$267,517 (\$220,000 in new amounts approved by voters and \$47,517 in investment earnings) during the year from \$725,046 at June 30, 2006 to \$992,563 at June 30, 2007. In accordance with statutory requirements they are held in custody by the Trustees of Trust Funds of the required local municipal government and are only released for the restricted specific purposes of the individual funds.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## GENERAL FUND BUDGETARY HIGHLIGHTS

For the year ended June 30, 2007 the District did not revise its statutory budgetary line items; rather, the District's budgetary control was managed on an aggregate total budget-to-actual basis; total estimated revenues and appropriations versus actual revenues and expenditures.

### Actual Versus Final Budget Comparison

The amounts of actual inflows (resources) and outflows (charges to appropriations) varied from the final budget for the following significant items:

- Actual inflows (resources) exceeded the budgetary revenue estimates by a positive variance of \$202,827 (total of \$158,652 plus beginning fund balance variance of \$44,175).
- In general, revenues from the following sources exceeded original estimates:
  - Tuition payments from other Local Education Agencies, as well as individuals for students attending KRSD, by \$22,015.
  - Earnings on investments by \$51,179 as a result of the increase in investment rates.
  - Other local sources by \$33,312.
  - From the State of New Hampshire: Catastrophic Aide by \$96,160.
- The original budget for the General Fund in the amount of \$27,165,124 consists of the total appropriation voted of \$53,244,124 less amounts representing offsets for other funds; \$460,000 for the Food Service Fund, and \$400,000 for the Federal and State Projects Fund and \$25,219,000 for the Middle School Capital Projects Fund.
- The final budget consists of \$27,165,124 original budget plus \$70,149 encumbered funds from the year ended June 30, 2006.
- Actual total outflows (expenditures or charges to appropriations) in the amount of \$27,139,383 were lower than the budgeted total appropriation of \$27,235,273 by a positive variance of \$95,890.
- In general, budgetary line items throughout the functions / program categories resulted in positive or negative variances that were due the efforts of management to not exceed the bottom line budget (adjusted for any increase in unanticipated revenues) as a result of:
  - Identification of special education costs less than appropriations by \$213,871.
  - Identification of student transportation cost, including fuel surcharges, less than appropriations by \$154,422.
  - Identification of special revenue fund transfer out of \$194,465 for the purpose of maintaining safe operation of facilities.
- None of the currently known reasons for the budgetary variations are expected to have a significant effect on future services or liquidity.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested \$32,618,428 (\$41,319,301 at cost or estimated cost less accumulated depreciation of \$8,700,873) in a broad range of capital assets, including land and land improvements, construction in progress for the Middle School, buildings, furniture, general equipment and technology assets as summarized in Exhibit C-1.

This amount represents a net increase of \$14,041,486 or 76% over the prior year (restated by \$19,598 for corrections). This year's major additions are also summarized in Exhibit C-1.

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### Exhibit C-1 NET CAPITAL ASSETS AND MAJOR ADDITIONS

Net Capital Assets	Governmental Activities		
	<u>2006</u>	<u>2007</u>	<u>Change</u>
	(restated)		
Land and improvements	\$ 800,108	\$ 800,108	0%
Construction In Progress	502,659	14,627,392	2810%
Buildings	21,839,875	22,221,873	2%
Furniture and equipment	1,848,171	1,786,489	-3%
Technology equipment	<u>1,697,963</u>	<u>1,883,439</u>	<u>11%</u>
Capital assets, at cost	26,688,776	41,319,301	55%
Accumulated Depreciation	<u>(8,111,834)</u>	<u>(8,700,873)</u>	<u>-7%</u>
Capital assets, net	<u>\$ 18,576,942</u>	<u>\$ 32,618,428</u>	<u>76%</u>
Increase in Capital Assets, Net		<u>\$ 14,041,486</u>	
Major Additions			
Middle School Construction		\$ 14,124,733	

More detailed information about the District's capital assets is presented in the notes to the basic financial statements.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## Debt

At June 30, 2007, the District had \$29,813,434 of long-term obligations (\$32,563,413 in total obligations less the current portion of \$3,525,528) as summarized in Exhibit C-2.

This amount represents a net increase of 279% from the prior year. On July 20, 2006 the District received \$24,719,000 from the issuance of general obligation bonds with a face value of \$24,450,150 for the construction of the Middle School.

### Exhibit C-2 LONG-TERM LIABILITIES

Long-Term Liabilities	Governmental Activities		
	<u>2006</u>	<u>2007</u>	<u>Change</u>
General obligation bonds	\$ 6,644,967	\$ 29,813,434	349%
Capital leases	162,895	261,916	61%
Compensated absences	7,099	8,243	16%
Early retirement obligations - payments	1,680,689	1,696,918	1%
Early retirement obligations - healthcare	810,556	782,902	-3%
	<u>9,306,206</u>	<u>32,563,413</u>	<u>250%</u>
Less current portion	<u>(1,636,724)</u>	<u>(3,525,528)</u>	<u>115%</u>
	<u>\$ 7,669,482</u>	<u>\$ 29,037,885</u>	<u>279%</u>
<b>Increase, Net</b>		<u>\$ 21,368,403</u>	
<b>Major Additions</b>			
General Obligation Bond - Middle School Construction		\$ 24,450,150	

State law (RSA 195:6II) limits the amount of general obligation debt that the District may incur at any one time to 10% of the locally assessed valuation (of the towns in which the District is located) as equalized by the Commissioner of the New Hampshire Department of Revenue Administration. For the year ended June 30, 2007 the estimated legal debt limit is approximately \$317,000,000 on equalized valuation of \$3,172,106,114.

More detailed information about the District's long-term liabilities is presented in the notes to the basic financial statements.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

District management and the School Board considered many factors when submitting the fiscal year 2007-2008 budget to the Municipal Budget Committees and the District voters. One of the major factors continues to be the impact of yearly changes in revenues under the State's system of funding education on the school district assessment to be assessed to each of the seven towns in the District. Exhibit D-1 compares the actual amounts for the year ended June 30, 2007 with the amounts budgeted for fiscal year 2007-2008. The Equitable Education Grant increased from \$2,540,321 in 2006-2007 to \$2,775,407 for 2007-2008. The State Education tax decreased from \$6,721,984 in 2006-2007 to \$6,720,757 for 2007-2008.

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### Exhibit D – 1 STATE TAX AND ADEQUACY GRANTS

	Fiscal Year Actual 2006-2007	Fiscal Year (Budget) 2007-2008	Change
Town of Bradford	\$ 993,698	\$ 1,058,780	7%
Town of Newbury	1,638,526	1,588,907	-3%
Town of New London	2,626,169	2,580,245	-2%
Town of Springfield	753,755	826,212	10%
Town of Sutton	921,202	952,586	3%
Town of Warner	1,578,447	1,715,788	9%
Town of Wilmot	750,508	773,646	3%
	<u>\$ 9,262,305</u>	<u>\$ 9,496,164</u>	<u>3%</u>

The school district assessment is allocated to each of town under a formula calculation which is based on the relative percent to the total of two components; (1) 40% by the equalized valuation percentage, and (2) 60% by the average daily membership (ADM) percentage. Exhibit D-2 shows the school district assessment for each of the towns in the District used by the State to set the local school district property tax rate for the fiscal years 2005-2006 and 2006-2007.

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### Exhibit D-2 SCHOOL DISTRICT ASSESSMENT

	Fiscal Year (Actual) 2005-2006	Fiscal Year (Actual) 2006-2007	Change
Town of Bradford	\$ 1,287,400	\$ 1,363,953	6%
Town of Newbury	2,458,118	2,798,204	14%
Town of New London	3,827,919	4,293,261	12%
Town of Springfield	1,220,726	1,308,705	7%
Town of Sutton	1,748,280	1,999,145	14%
Town of Warner	1,882,072	2,341,675	24%
Town of Wilmot	1,207,599	1,418,653	17%
	<u>\$ 13,632,114</u>	<u>\$ 15,523,596</u>	<u>14%</u>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives.

Questions regarding this report should be directed to Dr. Thomas Brennan, Superintendent of Schools or to Mr. Larry LeBoeuf, Business Administrator, at (603-526-2051) or by mail at:

Kearsarge Regional School District  
Attn: Larry LeBoeuf  
169 Main Street  
New London, New Hampshire 03257

## **BASIC FINANCIAL STATEMENTS**

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Statement of Net Assets June 30, 2007

	Primary Government Governmental Activities
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 383,225
Investments	14,688,000
Receivables, net	68,412
Due from other governments	1,113,119
Inventories	7,500
Deposit	634,647
Other assets	18,059
Current assets	<u>16,912,962</u>
<b>Noncurrent Assets</b>	
Capital assets:	
Land, improvements, and construction in progress	15,134,202
Other capital assets, net of accumulated depreciation	<u>17,484,226</u>
Noncurrent assets	<u>32,618,428</u>
Total assets	<u>49,531,390</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	1,719,466
Accrued expenses	2,735,273
Deferred revenue	19,626
Current portion of long-term liabilities	3,525,528
Other liabilities	<u>194,287</u>
Current liabilities	<u>8,194,180</u>
<b>Noncurrent Liabilities</b>	
Bonds payable	26,687,146
Unamortized bond premiums	377,610
Compensated absences	8,243
Capital lease obligations	103,098
Early retirement obligations	<u>1,861,788</u>
Noncurrent liabilities	<u>29,037,885</u>
Total liabilities	<u>37,232,065</u>
<b>NET ASSETS</b>	
Investment in capital assets, net of related debt	13,045,575
Restricted for:	
Capital projects	1,102,030
Other nonmajor purposes	1,292,129
Unrestricted	<u>(3,140,409)</u>
Total net assets	<u>\$ 12,299,325</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Statement of Activities Year Ended June 30, 2007

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating	Primary Government
			Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction				
Regular instruction	\$ 10,981,649	\$ 15,184	\$ 260,842	\$ (10,705,623)
Special education instruction	5,268,580	106,831	802,583	(4,359,166)
Other instruction	496,047	-	-	(496,047)
Support services				
Student support services	1,319,348	-	-	(1,319,348)
Instructional staff services	667,142	-	-	(667,142)
General administration	286,958	-	-	(286,958)
Executive administration	845,453	-	-	(845,453)
School administrative services	1,325,810	-	-	(1,325,810)
Operation and maintenance	2,047,226	-	-	(2,047,226)
Student transportation	1,554,100	-	-	(1,554,100)
Food service program	730,204	557,444	135,561	(37,199)
Interest expense	1,022,576	-	-	(1,022,576)
Miscellaneous	11,631	-	-	(11,631)
Other financing uses/nonoperating	33,261	-	-	(33,261)
Depreciation (unallocated)	653,768	-	-	(653,768)
Total governmental activities	27,243,753	679,459	1,198,986	(25,365,308)

### General revenues:

School district assessment	\$ 15,523,596
Grants and contributions not restricted to specific purposes:	
Local sources	115,133
State of New Hampshire sources	10,676,698
Federal sources	95,479
Investment income	<u>1,254,805</u>
Total general revenues	<u>27,665,711</u>
Change in net assets	2,300,403
Net assets - beginning (As restated)	<u>9,998,922</u>
Net assets - ending	<u>\$ 12,299,325</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

# KEARSARGE REGIONAL SCHOOL DISTRICT

Balance Sheet  
Governmental Funds  
June 30, 2007

	General Fund	Middle School	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 323,930	\$ 59,295	\$ -	\$ 383,225
Investments	873,588	13,595,605	218,807	14,688,000
Receivables, net	12,297	-	56,115	68,412
Due from other governments	62,111	-	1,051,008	1,113,119
Due from other funds	409,982	-	263,996	673,978
Inventories	-	-	7,500	7,500
Other assets	18,059	-	-	18,059
Total assets	<u>\$ 1,699,967</u>	<u>\$ 13,654,900</u>	<u>\$ 1,597,426</u>	<u>\$ 16,952,293</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 171,041	\$ 1,548,383	\$ 42	\$ 1,719,466
Accrued expenses	1,040,331	537,024	27,270	1,604,625
Due to other funds	234,053	181,566	258,359	673,978
Deferred revenue	-	-	19,626	19,626
Other liabilities	-	194,287	-	194,287
Total liabilities	<u>1,445,425</u>	<u>2,461,260</u>	<u>305,297</u>	<u>4,211,982</u>
Fund balances:				
Reserved for:				
Encumbrances	54,092	8,366,575	195,965	8,616,632
Inventories	-	-	7,500	7,500
Designated	25,000	-	-	25,000
Unreserved	175,450	-	-	175,450
Unreserved, reported in nonmajor:				
Special revenue funds	-	-	992,563	992,563
Capital project funds	-	2,827,065	96,101	2,923,166
Total fund balances	<u>254,542</u>	<u>11,193,640</u>	<u>1,292,129</u>	<u>12,740,311</u>
Total liabilities and fund balances	<u>\$ 1,699,967</u>	<u>\$ 13,654,900</u>	<u>\$ 1,597,426</u>	<u>\$ 16,952,293</u>

The accompanying notes to the basic financial statements are an integral part of this statement.



## KEARSARGE REGIONAL SCHOOL DISTRICT

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### Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets June 30, 2007

**Total Fund Balances - Governmental Funds** \$ 12,740,311

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

Capital assets used in the governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost	\$ 41,319,301	
Less accumulated depreciation	<u>(8,700,873)</u>	32,618,428

Long-term liabilities, including bonds payable, are not due in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ (29,402,547)	
Unamortized bond premium	(410,887)	
Capital leases	(261,916)	
Compensated absences	(8,243)	
Early retirement obligations	(1,696,918)	
Early retirement health	<u>(782,902)</u>	(32,563,413)

Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the governmental fund financial statements, an interest expenditure is reported when due.

(1,130,648)

Prepaid	<u>634,647</u>
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**Total Net Assets - Governmental Activities** \$ 12,299,325

The accompanying notes to the basic financial statements are an integral part of this statement.

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds Year Ended June 30, 2007

	General Fund	Middle School	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
School district assessment	\$ 15,523,596	\$ -	\$ -	\$ 15,523,596
Local sources	276,506	1,102,032	659,227	2,037,765
State of New Hampshire sources	10,897,720	-	8,823	10,906,543
Federal sources	95,479	-	969,141	1,064,620
Investment income	7,032	-	4,600	11,632
Total revenues	<u>26,800,333</u>	<u>1,102,032</u>	<u>1,641,791</u>	<u>29,544,156</u>
<b>Expenditures</b>				
Current:				
Instruction	17,267,771	-	504,790	17,772,561
Support services	1,658,155	-	328,335	1,986,490
General administration	279,358	-	7,600	286,958
Executive administration	6,152,187	-	2,400	6,154,587
Food service program	-	-	730,204	730,204
Debt service:				
Principal	1,554,749	-	-	1,554,749
Interest	252,314	-	-	252,314
Capital outlay	-	14,124,733	-	14,124,733
Miscellaneous	-	-	11,631	11,631
Total expenditures	<u>27,164,534</u>	<u>14,124,733</u>	<u>1,584,960</u>	<u>42,874,227</u>
Excess (deficiency) of revenues over expenditures	(364,201)	(13,022,701)	56,831	(13,330,071)
<b>Other Financing Sources (Uses)</b>				
Sale of bonds	-	24,719,000	-	24,719,000
Capital leases	258,594	-	-	258,594
Transfers in	-	-	439,465	439,465
Transfers out	<u>(439,465)</u>	<u>-</u>	<u>-</u>	<u>(439,465)</u>
Net change in fund balances	(545,072)	11,696,299	496,296	11,647,523
Fund balances - beginning of year	<u>799,614</u>	<u>(502,659)</u>	<u>795,833</u>	<u>1,092,788</u>
Fund balances - end of year	<u>\$ 254,542</u>	<u>\$ 11,193,640</u>	<u>\$ 1,292,129</u>	<u>\$ 12,740,311</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

**Total Net Change in Fund Balances - Governmental Funds** \$ 11,647,523

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlays	\$ 14,728,515	
Depreciation expense	(653,768)	
Loss on disposal of assets	<u>(33,261)</u>	14,041,486

Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net assets.

Bond premiums related to bond proceeds.	(24,450,150)	
	<u>(268,850)</u>	(24,719,000)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.

(258,594)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal on bonds	1,554,749	
Amortization of bond premiums	26,542	
Principal on capital leases	<u>159,573</u>	1,740,864

Interest on long-term liabilities in the statement of activities differs from the governmental fund amount because interest is recognized as an expenditure in the funds when it is due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Accrued interest (increase) decrease

(796,804)

In the statement of activities, certain operating expenses are measured by the amounts earned or used during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used.

Compensated absences (increase) decrease	(1,144)	
Prepaid expenses increase (decrease)	634,647	
Early retirement increase (decrease)	<u>11,425</u>	<u>644,928</u>

**Change in Net Assets of Governmental Activities** \$ 2,300,403

The accompanying notes to the basic financial statements are an integral part of this statement.

# KEARSARGE REGIONAL SCHOOL DISTRICT

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## Statement of Net Assets Fiduciary Funds June 30, 2007

	<u>Total Private Purpose Trusts</u>	<u>Student Activities</u>	<u>Total Fiduciary Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ 169,155	\$ 169,155
Investments - Mutual Funds	<u>77,329</u>	<u>-</u>	<u>\$ 77,329</u>
Total assets	<u>77,329</u>	<u>169,155</u>	<u>246,484</u>
<b>Liabilities</b>			
Due to student groups	<u>-</u>	<u>169,155</u>	<u>169,155</u>
Total liabilities	<u>-</u>	<u>169,155</u>	<u>169,155</u>
<b>Net Assets</b>			
Held in trust for private purposes	<u>77,329</u>	<u>-</u>	<u>77,329</u>
Total net assets	<u>\$ 77,329</u>	<u>\$ -</u>	<u>\$ 77,329</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

# KEARSARGE REGIONAL SCHOOL DISTRICT

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## Statement of Changes in Fiduciary Net Assets Private Purpose Trust Funds Year Ended June 30, 2007

	<b>Total Private Purpose Trust Funds</b>
<b>Additions:</b>	
Contributions	\$ 2,230
Investment Earnings	<u>9,649</u>
Total additions	<u>11,879</u>
<b>Deductions:</b>	
Scholarships	<u>7,000</u>
Change in net assets	4,879
Net assets beginning of year	<u>72,450</u>
Net assets end of year	<u>\$ 77,329</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

## **NOTES TO BASIC FINANCIAL STATEMENTS**

# KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements  
June 30, 2007

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Kearsarge Regional School District (the "District" or "Government") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict or contradict GASB pronouncements. The significant accounting policies established in GAAP and used by the District are discussed below.

### A. THE REPORTING ENTITY

The District is a primary (special-purpose) local government governed by an elected board. As required by GAAP, these financial statements are required to present the District and its component units (if any).

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization; or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government. Fiscal dependency is the ability to complete certain essential fiscal events without substantive approval by a primary government: (a) determine its budget without another government's having the authority to approve and modify that budget; (b) levy taxes or set rates or charges without approval by another government; and (c) issue bonded debt without approval by another government.

### B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both government-wide and fund financial statements categorize primary activities as either governmental or business type. The District does not have any business type primary activities.

In the government-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions / programs. The functions / programs are also supported by general revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants reflect capital-specific grants. The net costs (by function) are normally covered by general revenue. The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

## C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions. Funds are classified into three major categories: governmental, proprietary and fiduciary.

Fund financial statements focus on major funds of the primary government in contrast to the governmental and business type (if any) activities reported in the government-wide financial statements. Major funds represent the government's most important funds and are determined based on a minimum criteria set forth in GASBS No. 34 (numerical formula using total assets, liabilities, revenues, or expenditures/expenses of either fund category or activity combined). Major individual governmental funds are reported in separate columns in the fund financial statements with a combined column for all other nonmajor funds. The general fund is required to be reported as major fund. The following fund types are used by the District:

1. **Governmental Funds** – The focus of governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the District:

**General Fund** is the general operating fund of the District and is used to account for all resources except those required to be accounted for in another fund.

**Special Revenue Funds** are used to account for the proceeds of specific revenue sources (such as federal and state grants, local and private grants and the food service program) that are legally restricted to expenditures for specific purposes.

**Capital Project Funds** are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

2. **Fiduciary Funds** – The reporting focus of fiduciary funds is on net assets and, for private purpose trust funds, changes in net assets. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements. The following is a description of the fiduciary funds of the District:

**Private Purpose Trust Funds** are used to report trust arrangements under which the principal and interest benefits individuals, private organizations, or other governments. The assets are essentially held in trust for someone outside the reporting entity.

**Agency Funds** are used to report assets held in a custodial capacity for individuals or organizations outside of the reporting entity. The assets for these funds equal the liabilities and there is no operating activity to report.



## **D. BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Two different measurement focuses are used under the new financial reporting model, the flow of current financial resources and the flow of economic resources. The determination of when transactions are recognized is referred to as the basis of accounting. Like measurement focus, there are two different bases of accounting used; the accrual basis and the modified accrual basis.

### **Government-Wide Financial Statements**

The government-wide financial statements use the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, generally, all revenues, expenses, gains, losses, assets, and liabilities should be recognized when the economic exchange takes place. The government-wide financial statements report all of the assets, liabilities, revenues, expenses, and gains and losses of the entire government. These financial statements do not report fund information. Instead they focus on two specific types of activities performed by the government, "governmental activities" and, when applicable, "business type activities". Governmental and proprietary fund types are included in the governmental and, when applicable, business type activities reported in the government-wide financial statements and therefore utilize the measurement focus and basis of accounting applicable to these statements. Fiduciary funds are not reported in the government-wide financial statements.

### **Fund Financial Statements**

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and asset are recognized when they susceptible to accrual; i.e., both measurable and available. Measurable means the amount of the transaction can be determined. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, generally within sixty days after year-end. Expenditures and liabilities are recognized in the accounting period in which the fund liability is incurred and due, with certain modifications. Debt service and capital lease payments are recognized when the payment is due and compensated absences, claims and judgments, and special termination benefits are recognized to the extent that the liabilities are "normally expected to be liquidated with expendable available financial resources". Fiduciary fund financial statements use the economic resources measurement focus and the full accrual basis of accounting.

## **E. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

### **Cash and Cash Equivalents and Investments**

The District has defined cash and cash equivalents to include cash on hand, demand deposits as well as short-term investments with a maturity date of within three months of the date acquired by the District.

Investments are stated at fair value (quoted market price or the best available estimate).

### **Interfund Activity**

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to at market or near market rates, are treated as revenues and expenditures / expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Notes to Basic Financial Statements June 30, 2007

### Inventories

For statutory required supplementary information, inventories are accounted for utilizing the purchase method. Under this method, inventories are recorded as expenditures when purchased. For government-wide financial statements, inventories are carried at cost using the first-in, first-out method.

### Capital Assets

For government-wide financial statements, capital assets purchased or acquired, in accordance with the District's capitalization policy, are reported at historical cost or estimated historical cost. The capitalization threshold represents the amount that capital assets acquired must be capitalized. The District, however, may capitalize individual or aggregate assets under the threshold. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the assets estimated useful lives.

ASSET	Capitalization Threshold	Estimated Useful Lives
Land improvements	\$ 5,000	20
Buildings and improvements	\$ 5,000	20-50
Machinery, equipment and other	\$ 5,000	5-20

For fund financial statements, capital assets purchased for governmental operations are accounted for as capital expenditures of the governmental fund at the time of purchase.

### Compensated Absences

The District accrued accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

### Long-term Obligations

All long-term debt is reported as liabilities in the government-wide financial statements. Long-term debt generally consists of bonds payable (related bond premiums are amortized), capital leases, accrued compensated absences and early retirement termination benefits (which include annual cash payments and "District-share" of post-employment health and dental insurance). Governmental funds reported in the fund financial statements are concerned with current financial resources only and do not report long-term debt. Instead, debt proceeds are reported as other financing sources when received and payments of principal and interest are reported as expenditures when due. Statutory required supplementary information report on the current year lease payments with funding clauses per New Hampshire statutes as expenditures. For government-wide financial statements, leases that meet the requirements for capital lease assets and the related capital lease obligations are recorded.

### Governmental Fund Equity

For governmental funds the unreserved fund balances represent the amount available for appropriation in future periods subject to statutory requirements and limitation; the reserved fund balances represent the amounts that have been legally identified for specific purposes and are not appropriable for expenditure; and the designated fund balances represent tentative plans for future use of financial resources.

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Notes to Basic Financial Statements June 30, 2007

### Changes in Beginning Fund Net Assets

The following discloses the restatement of net assets as of the beginning of the fiscal year:

Net assets, beginning of year, as previously stated:	\$ 9,262,657
Decrease due to capital assets recording of inter-period disposals net of accumulated depreciation	(30,759)
Decrease due to correction of unamortized bond premium based upon the straight-line amorization method	(19,598)
Increase resulting from corrections and inconsistent application of GASB Statement No. 47 implementation for post-employment health insurance termination benefits for early retirees at June 30, 2006	786,622
Net assets, beginning of year, as restated	<u>\$ 9,998,922</u>

### Revenues

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the period in which the resources are measurable and available. Revenue resulting from non-exchange transactions, in which the District receives value without directly giving equal value in return, generally includes grants and donations and is recognized when applicable grantor requirements, including purpose, eligibility, timing, and matching have been met. General revenues on the Statement of Activities include the school district assessment (levied by the appropriate local governments as property taxes) and aid from various State of New Hampshire sources that are not program revenues (charges for services, or related to operating or capital grant programs).

### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures. Accordingly, actual results could differ from those estimates.

## NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### Legal Debt Limit

Per state statute, the District may not incur debt at any one time in excess of 10% of its locally assessed valuation (for all municipalities in the District) as last equalized by the Commissioner of the New Hampshire Department of Revenue Administration. For the year ended June 30, 2007, the District had not exceeded its legal debt limit of approximately \$317,000,000 on \$3,172,106,114 of equalized valuation.

### Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees and natural disasters. The District purchases, through an agent, coverage from an insurance company for Worker's Compensation, Commercial Auto and Commercial Property and Liability (including general liability; errors and omissions; buildings and contents, employee dishonesty, electronic equipment and equipment breakdown); Commercial Umbrella and Public Officials / Treasurer Bond. There have no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

# KEARSARGE REGIONAL SCHOOL DISTRICT

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Notes to Basic Financial Statements  
June 30, 2007

## Claims, Judgments and Contingent Liabilities

### Grant Programs

The District participates in numerous state, federal and private funded programs, which are governed by various laws, regulations, contracts and agreements of the grantor. Costs charged to these programs are subject to audit or review by the grantor; therefore, to the extent that the District has not complied with laws, regulations, contracts and agreements of the grantor, refunds of money for any disallowed claims, including amounts already collected, may constitute a contingent liability of the District.

At June 30, 2007, the District believes that there are no significant contingent liabilities relating to compliance with the laws, regulations, contracts and agreements governing these programs; therefore, no provision has been recorded in the financial statements for such contingencies.

### Litigation

The District is subject to various claims, and sometimes lawsuits, which arise in the normal course of operations. Management of the District believes that the outcome of these contingencies will not have a materially adverse effect on the financial statements and accordingly, no provision for loss has been recorded.

## Fund Deficits, Restrictions and Encumbrances

### General Fund

The \$254,542 fund balance in General Fund is subject to encumbered obligations in the amount of \$54,092 and voter approved appropriation of year end fund balance in the amount of \$25,000. The year end unreserved undesignated fund balance is \$175,450.

### Middle School Capital Projects Fund

The \$11,193,640 fund balance in the Middle School Capital Projects Fund is subject to encumbered contract amounts of \$8,366,575; restrictions on the \$1,102,032 of investment income earned on the bond proceeds prior to expenditure on the project, and the balance due on project construction categories.

Of the \$1,102,032 investment income earned, \$500,000 has been appropriated by voters for expenditure on the project and \$194,287 has been accrued through June 30, 2007 for potential arbitrage rebate to the United States Treasury under Treasury regulations related to municipal tax-exempt bond issuances for construction projects.

### Food Service

The \$17,291 beginning deficit in the Food Service Fund was offset by \$1,291 of current year excess of revenues over expenditures and an operating transfer subsidy from the General Fund in the amount of \$23,500. The year end reserved fund balance of \$7,500 is for inventories and the unreserved undesignated fund balance is zero.

# KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements  
June 30, 2007

## NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and equivalents	\$ 383,225
Investments	14,688,000
Fiduciary funds:	
Cash and investments	169,155
	<u>\$ 15,240,380</u>

Deposits and investments as of June 30, 2007 consist of the following:

Cash on hand	\$ -
Deposits with financial institutions	552,380
Investments	14,688,000
	<u>\$ 15,240,380</u>

### Credit Risk - Deposits

The District maintains deposits in accordance with RSA 197:23-a which states that the district treasurer shall deposit the moneys in participation units in the public deposit investment pool established pursuant to RSA 383:22, or in solvent banks in the state, except that funds may be deposited in banks outside the state if such banks pledge and deliver to a third party custodial bank or the regional federal reserve bank collateral security for such deposits United States government obligations, United States government agency obligations, or obligations of the state of New Hampshire in value at least equal to the amount of the deposit in each case.

### Credit Risk - Investments

The District maintains investments in accordance with RSA 197:23-a which states that whenever the treasurer has in custody an excess of funds which are not immediately needed for the purpose of expenditure, the treasurer shall, with the approval of the school board, invest the same in obligations of the United States government, in participation units in the public deposit investment pool established pursuant to RSA 383:22, in savings bank deposits of banks incorporated under the laws of the state of New Hampshire or in certificates of deposits and repurchase agreements of banks incorporated under the laws of the state of New Hampshire or in banks recognized by the state treasurer.

Any person who directly or indirectly receives any such funds for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the district. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral. At least yearly, the school board shall review and adopt an investment policy for the investment of public funds in conformance with the provisions of applicable statutes.

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Notes to Basic Financial Statements June 30, 2007

Investments made by the District as of June 30, 2007 are summarized below:

	<u>Balance</u>	<u>Rating</u>	<u>Rating Agencies</u>
U.S. government securities	\$ -		
Certificates of deposit	-		
NH Public Deposit Investment Pool	1,092,395	Not Rated	
Repurchase agreements	13,595,605		
	<u>\$ 14,688,000</u>		

### Concentration of Credit Risk

The District does not have a formal investment policy that limits the amount the District may invest in any one issuer. Investments in the New Hampshire PDIP ("pooled investments") are excluded from the five percent disclosure requirement.

### Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Information about the sensitivity of the fair values of the District's investments (including investments underlying repurchase agreements or pledged as collateral under a qualifying agreement) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity (specific agreements identify which two District bank accounts are covered under the pledge agreement):

<u>Investment Type</u>	<u>Remaining Maturity (Months)</u>			
	12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Pledged Collateral				
Federal Home Loan Bank	\$ 124,688	\$ 124,688	\$ -	\$ -
U.S. Treasury Note	\$ 1,904,547	\$ 1,904,547	\$ -	\$ -

Investments in the New Hampshire PDIP ("pooled investments") are excluded from this disclosure requirement.

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal policy for custodial credit risk on deposits. As of June 30, 2007, \$159,295 of the District's \$728,142 bank balance was covered by deposit insurance and \$568,847 was covered by pledged collateral held in the District's name. The bond proceeds for the Middle School Capital Project Fund were invested temporarily in repurchase agreements which are liquidated during the day into deposits. At June 30, 2007 the \$13,595,605 amount on deposit was collateralized by a U.S. government agency note in the amount of \$16,000,000 (at par) joint custody account with a bank. Investments in the New Hampshire PDIP are evidenced by shares of the pool, they are not evidenced by securities that exist in physical or book-entry form; therefore, no disclosure is required.

# KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements  
June 30, 2007

## NOTE 4 - INTERFUND BALANCES AND TRANSFERS

Individual interfund balances, resulting primarily from utilization of centralized general fund cash accounts, at June 30, 2007 consisted of the following:

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
General fund	\$ 409,982	\$ 234,053
Capital project fund	-	181,566
Nonmajor Funds:		
Governmental funds	263,996	258,359
	<u>\$ 673,978</u>	<u>\$ 673,978</u>

Individual interfund transfers, resulting from routine transfers during the year based upon statutory or budgetary authorization, for the year ended June 30, 2007 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General fund	\$ -	\$ 439,465
Nonmajor Funds:		
Governmental funds	439,465	-
	<u>\$ 439,465</u>	<u>\$ 439,465</u>

## NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2007 consisted of the following:

	<u>General Fund</u>	<u>Capital Reserves</u>	<u>Nonmajor Governmental Funds</u>
Local Governments			
Other School Districts	\$ 21,924	\$ -	\$ -
Town of New London - Trustees	-	992,563	-
State Governments			
New Hampshire - Medicaid	20,261	-	-
New Hampshire - Fuel Reimbursement	15,130	-	-
New Hampshire Retirement System	692		
State of Vermont	4,104	-	-
Federal / State Government			
Pass-through grants and other	-	-	49,767
Food program reimbursements	-	-	8,678
	<u>\$ 62,111</u>	<u>\$ 992,563</u>	<u>\$ 58,445</u>

All receivables result from tuition; grant reimbursement and federal (passed-through the State of New Hampshire) Medicaid reimbursements not received until after year-end and reported in the General Fund and Nonmajor Governmental Funds. The District capital reserve funds are due from the Town of New London - Trustees; the statutory custodian.

# KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements  
June 30, 2007

## NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Governmental Activities (at cost)</b>				
<b>Capital assets not being depreciated:</b>				
Land and improvements	\$ 506,810	\$ -	\$ -	\$ 506,810
Construction in progress	502,659	14,124,733	-	14,627,392
	<u>1,009,469</u>	<u>14,124,733</u>	<u>-</u>	<u>15,134,202</u>
<b>Capital assets being depreciated:</b>				
Land improvements	293,298	-	-	293,298
Buildings	21,839,875	381,998	-	22,221,873
Furniture and equipment - Restated	1,848,171	30,031	91,713	1,786,489
Technology equipment - Restated	1,697,963	191,753	6,277	1,883,439
	<u>25,679,307</u>	<u>603,782</u>	<u>97,990</u>	<u>26,185,099</u>
<b>Less accumulated depreciation:</b>				
Land improvements	166,222	7,942	-	174,164
Buildings	5,590,813	404,187	-	5,995,000
Furniture and equipment - Restated	1,218,388	96,445	62,106	1,252,727
Technology equipment - Restated	1,136,411	145,194	2,623	1,278,982
Accumulated depreciation	<u>8,111,834</u>	<u>653,768</u>	<u>64,729</u>	<u>8,700,873</u>
Capital assets being depreciated, net	<u>17,567,473</u>	<u>(49,986)</u>	<u>33,261</u>	<u>17,484,226</u>
<b>Governmental activities capital assets, Net of accumulated depreciation</b>	<u>\$ 18,576,942</u>	<u>\$ 14,074,747</u>	<u>\$ 33,261</u>	<u>\$ 32,618,428</u>
Depreciation expense for the year ended June 30, 2007 (unallocated)				<u>\$ 653,768</u>



# KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements  
June 30, 2007

## NOTE 7 - LONG-TERM LIABILITIES

The District can issue general obligation debt instruments to provide funds for the acquisition and construction of major capital equipment, infrastructure and other facilities. General obligation debt instruments are "direct government obligations" and consequently are a pledge of the full faith and credit of the District. The District was obligated under certain leases accounted for as capital leases. The leased assets were accounted for as capital assets and capital lease liabilities in the government-wide financial statements. In the governmental fund financial statements the leases were recorded as expenditures and other financing source in the year executed; annual lease payments were recorded as expenditures when paid. Other long-term obligations include compensated absences. A summary of long-term liabilities outstanding at June 30, 2007 is as follows:

	General Obligation Bonds	Bond Premiums	Capital Leases	Compensated Absences	Total
Beginning balance	\$ 6,507,146	\$ 168,579	\$ 162,895	\$ 7,099	\$ 6,845,719
Additions	24,450,150	268,850	258,594	2,364	24,979,958
Reductions	(1,554,749)	(26,542)	(159,573)	(1,220)	(1,742,084)
Ending balance	<u>29,402,547</u>	<u>410,887</u>	<u>261,916</u>	<u>8,243</u>	<u>30,083,593</u>
Current portion	2,715,401	33,277	158,818	-	2,907,496
Noncurrent portion	<u>26,687,146</u>	<u>377,610</u>	<u>103,098</u>	<u>8,243</u>	<u>27,176,097</u>
	<u>\$ 29,402,547</u>	<u>\$ 410,887</u>	<u>\$ 261,916</u>	<u>\$ 8,243</u>	<u>\$ 30,083,593</u>

On July 20, 2006 the District received \$24,719,000 from the issuance of general obligation bonds with a face value of \$24,450,150 at a premium of \$268,850 (which is amortized using the straight-line method over the term of the bond as an annual reduction of interest expense on the scheduled interest and principal payment basis). The bond carries true interest coupon rates from 4.00% to 5.00% and matures on August 15, 2026. Interest is paid on February 15<sup>th</sup> and August 15<sup>th</sup> each year. Principal payments are made on August 15<sup>th</sup> of each year. Long-term liabilities outstanding at June 30, 2007 consisted of the following:

	Issue Year	Interest Rate	Maturity Date	Issue Amount Net (Discount) Premium	Amount Outstanding 6/30/07
<u>General Obligation Bonds</u>					
Middle School	2006	4.00-5.00	2026	\$ 24,719,000	\$ 24,068,665
High School Addition	1996	5.62-5.75	2011	6,838,167	2,940,000
High School Addition	2004	3.00-5.00	2014	3,259,044	2,414,769
High School Roof	2002	3.00-4.00	2012	667,500	390,000
					<u>29,813,434</u>
<u>Capital Lease Obligations</u>					
Technology equipment	2006	4.59	2008	249,993	83,275
Technology equipment	2007	4.86	2005	214,598	139,645
Technology equipment	2007	7.55	2005	43,999	38,996
					<u>261,916</u>
<u>Other Long-Term Obligations</u>					
Compensated absences					<u>8,243</u>
					<u>\$ 30,083,593</u>

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Notes to Basic Financial Statements June 30, 2007

Annual debt service requirements to maturity for general obligation bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 2,715,401	\$ 325,005	\$ 3,040,406
2009	2,646,569	388,620	3,035,189
2010	2,581,782	448,651	3,030,433
2011	2,525,008	500,152	3,025,160
2012	2,474,860	544,869	3,019,729
After	<u>16,458,927</u>	<u>13,148,709</u>	<u>29,607,636</u>
	<u>\$ 29,402,547</u>	<u>\$ 15,356,006</u>	<u>\$ 44,758,553</u>

Obligations under capital lease are as follows:

2008	\$ 170,372
2009	83,274
2010	8,322
2011	8,322
2012	8,322
After	<u>8,322</u>
Total minimum lease payments	286,934
Less amount representing imputed interest	<u>25,018</u>
Present value of minimum lease payments	<u>\$ 261,916</u>

## NOTE 8 - EARLY RETIREMENT OBLIGATIONS

The District Collective Bargaining Agreement contains provisions for voluntary early retirement, payment and post-employment healthcare provisions. When the offer for early retirement is accepted the early retiree is scheduled to receive a series of "payments" specific to each early retiree's length of service and history of compensation. In addition, early retirees also receive post-employment healthcare benefits with employer cost and employee amounts. Some early retirees may also be eligible to receive a health insurance subsidy from a special account maintained by the State. The subsidy was estimated only through the year 2011 when actuaries of the account have estimated that funds will no longer exist. Per GASB No. 47, the District discloses the healthcare cost trend rate used for estimating the future cost of these healthcare benefits (based upon the moving average of historical increases in the healthcare costs) as 8% for the fiscal years ending 6/30/08 and 6/30/09, 7% for the fiscal year ending 6/30/10, and, 8% for the subsequent fiscal years ending through 6/30/19. The District also discloses the a 4% discount rate was used to calculate the present value of the estimated future health care costs and is based on the current investment maximized yield. A summary of early retirement and related healthcare liabilities outstanding at June 30, 2007 is as follows:

	<u>Early Retirement Payments</u>	<u>Early Retirement Healthcare</u>	<u>Total</u>
Beginning balance - Healthcare Restated	\$ 1,680,689	\$ 810,556	\$ 2,491,245
Additions	433,114	182,959	616,073
Reductions	<u>(416,885)</u>	<u>(210,613)</u>	<u>(627,498)</u>
Ending balance	<u>1,696,918</u>	<u>782,902</u>	<u>2,479,820</u>
Current portion	437,163	180,869	618,032
Noncurrent portion	<u>1,259,755</u>	<u>602,033</u>	<u>1,861,788</u>
	<u>\$ 1,696,918</u>	<u>\$ 782,902</u>	<u>\$ 2,479,820</u>

## NOTE 9 - PENSION PLAN

The District participates in the New Hampshire Retirement System (the "System"), a cost-sharing multiple-employer defined benefit pension plan and trust established in 1967 by RSA 100-A:2 administered by a Board of Trustees. The plan is a contributory plan that provides service, disability, death and vested retirement benefits to members and their beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State Legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to New Hampshire Retirement System, 4 Chenell Drive, Concord, New Hampshire 03301.

The System is funded by contributions from both the employees and the District. Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature while the employer contribution rates are determined by the System Board of Trustees based on an actuarial valuation. Plan members are required to contribute 5.0% of their covered salary. The District's contribution rates for the year ended June 30, 2007 were 3.70% and 6.81% of covered payroll for teachers and other employees, respectively (representing 65% of the cost for teachers and 100% of the cost for other employees). The District's contributions to the System for the years ending June 30, 2007, 2006, and 2005 were \$504,766, \$480,998, and \$313,571, respectively, equal to the required contributions for each year.

The State of New Hampshire provides, directly to the System, 35% of the funding of the District's teacher employer contributions; which in accordance with GASB Statement No. 24, represents on-behalf fringe benefit payments that are required to be reported as revenue and expense in the statement of activities and as revenue and expenditure in the governmental funds statement of revenues, expenditures and changes in fund balances. For the year ended June 30, 2007 on-behalf fringe benefit payments were made by the State of New Hampshire for District in the amount of \$206,022.

## NOTE 10 - COLLECTIVE BARGAINING AGREEMENTS

The District normally negotiates long-term agreements with qualifying employee groups through a formal collective bargaining process. The District voters must ratify the agreement. State budgetary statutes require disclosure of certain aggregate cost items / cost item increases to be incurred during the term of the agreement. Cost items include levels of compensation and related fringe benefits (such as the District portion of employee health, dental, group life and disability insurances) and sick, vacation and other compensated absences or special termination benefits.

## NOTE 11 - POST-RETIREMENT HEALTH CARE

The District does not provide post-employment health-care benefits except those mandated by the Consolidated Omnibus Reconciliation Act (COBRA) or those provided under Early Retirement provisions of the Collective Bargaining Agreement accounted and reported in accordance in GASB 47. The requirements established by COBRA for post-employment health-care benefits provide that employees who elect coverage under the Act are responsible for the cost.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Budget Adjustments	Final Budget	Actual	Variance
<b>Budgetary Fund Balance - Beginning</b>	\$ 773,640	\$ 70,149	\$ 843,789	\$ 799,614	\$ (44,175)
Resources (inflows):					
School district assessment					
Local school tax	15,523,240	-	15,523,240	15,523,596	356
Local sources					
Tuition	100,000	-	100,000	122,015	22,015
Earnings on investments	50,000	-	50,000	101,179	51,179
Other	20,000	-	20,000	53,312	33,312
State of New Hampshire sources					
School building aid	1,115,798	-	1,115,798	1,113,207	(2,591)
Catastrophic aid	190,141	-	190,141	286,301	96,160
Vocational aid	-	-	-	14,885	14,885
Driver education	30,000	-	30,000	15,000	(15,000)
Adequacy grant	2,540,321	-	2,540,321	2,540,321	-
State education tax	6,721,984	-	6,721,984	6,721,984	-
Federal sources					
Medicaid distribution	100,000	-	100,000	95,479	(4,521)
Miscellaneous					
Indirect Costs Income	-	-	-	7,032	7,032
Amounts available for appropriation	<u>27,165,124</u>	<u>70,149</u>	<u>27,235,273</u>	<u>27,393,925</u>	<u>158,652</u>
Charges to appropriations (outflows):					
Instruction					
Regular instruction	11,493,911	12,355	11,506,266	11,503,319	2,947
Special education instruction	5,222,138	1,544	5,223,682	5,009,811	213,871
Other instruction	308,884	-	308,884	290,025	18,859
Support services					
Student support services	1,042,946	-	1,042,946	1,092,715	(49,769)
Instructional staff services	627,593	-	627,593	565,440	62,153
Other school board	149,500	22,500	172,000	279,358	(107,358)
Executive administration					
SAU management services	825,086	-	825,086	845,453	(20,367)
School administrative services	1,406,699	-	1,406,699	1,325,810	80,889
Operation and maintenance	2,352,153	8,750	2,360,903	2,429,224	(68,321)
Student transportation	1,706,122	-	1,706,122	1,551,700	154,422
Debt service					
Debt service principal	1,555,136	-	1,555,136	1,554,749	387
Debt service interest	254,956	-	254,956	252,314	2,642
Operating transfers out					
Special revenue funds	<u>220,000</u>	<u>25,000</u>	<u>245,000</u>	<u>439,465</u>	<u>(194,465)</u>
Total charges to appropriations	<u>27,165,124</u>	<u>\$ 70,149</u>	<u>27,235,273</u>	<u>27,139,383</u>	<u>95,890</u>
<b>Budgetary Fund Balance - Ending</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 254,542</u>	<u>\$ 254,542</u>

## **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

# KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Required Supplementary Information  
June 30, 2007

## NOTE 1 - BUDGETARY INFORMATION

### A. Original Budget

Governmental budgetary appropriations and estimated revenues are accounted for on a fund basis in accordance with state statutes, administrative rules and local laws, policies or procedures. The budgetary process results in a formally adopted District budget by voters at the annual District meeting. Subsequent regulatory reviews by departments of the State of New Hampshire are made of the budgetary process (warrant articles, required results of votes, etc.), adopted budget and the estimated revenues of the District. After final allocation of state aid programs to the District and approval of final estimated revenues (including the use of beginning unreserved general fund balance), a balanced District budget is achieved in accordance with State statute (the "original" budget). The original budget is the first complete, legally appropriated budget adjusted for appropriate changes occurring before the beginning of the year. The original budget for the General Fund in the amount of \$27,165,124 consists of the total appropriation voted of \$53,244,124 less amounts representing offsets for other funds; \$460,000 for the Food Service Fund, \$400,000 for Other Special Revenue Funds and \$25,219,000 for the Middle School Capital Projects Fund.

### B. Budgetary Changes, Transfers, Encumbrances and Continuing Appropriations

#### Budgetary Changes

In accordance with RSA 198:20-b, appropriations may be made by the school board by applying for, accepting and expending unanticipated funds (money from a state, federal or other governmental unit or a private source) which become available during the year without further action by the District. Such money may be used only for legal purposes for which a school district may appropriate money; shall not require the expenditure of other school district funds except those funds lawfully appropriated for the same purpose; and shall be exempt from the provisions of RSA 32 relative to the limitation of expenditure of school district moneys. The statute requires the school board to hold a public hearing on the action to be taken and to comply with various public notice requirements.

#### Transfers

The school board may authorize budgetary transfers between allowable appropriations (programs, functions or categories); however, total expenditures may not exceed the total allowable appropriations budgeted (which consists of the original budget plus appropriations allowable under RSA 198:20-b, encumbrances carried forward from the prior year and continuing appropriations, if any).

#### Encumbrances and Continuing Appropriations

All annual appropriations lapse at year-end unless encumbered. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Encumbrances are not expenditures and are reported as a reservation of fund balances in governmental funds and are carried forward to supplement appropriations of the subsequent year. Encumbrances of \$70,149 were carried forward from the prior year.

Certain appropriations that are not "annual appropriations" do not lapse at year-end. These continuing appropriations include those from special or unanticipated revenues, capital projects and specific items that are not required to have been completed at year-end. Continuing appropriations are reported as a reservation of fund balances in governmental funds and are carried forward to supplement appropriations of the subsequent year.

### C. Final Budget

The final budget consists of the original budget adjusted for appropriate legal changes applicable to the year, including those occurring during and after the end of the year.

# KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Required Supplementary Information  
June 30, 2007

## NOTE 2 - EXPLANATION OF BUDGETARY TO GAAP DIFFERENCES

### Basis and Timing Differences

The basis of accounting or the timing of transactions used or applied by the funds in the basic financial statements (fund financial statements) differs from the basis of accounting or timing of transactions used or applied by the funds for budgetary purposes. The following is an explanation of the differences between budgetary inflows and outflows and GAAP revenues and expenditures.

<u>Budgetary Fund</u>	<u>General Fund</u>
<u>Financial Statement Major Fund</u>	<u>General Fund</u>
<b>Sources / Inflows of Resources:</b>	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 27,393,925
Differences - Budget to GAAP:	
Budgetary inflows that are not revenues for financial reporting purposes	
Beginning fund balance	(799,614)
Transfers from other funds	-
Teacher retirement on-behalf payments by the State of New Hampshire	<u>206,022</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 26,800,333</u></u>
<b>Uses / Outflows of Resources:</b>	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 27,139,383
Differences - Budget to GAAP:	
Budgetary outflows that are not expenditures for financial reporting purposes	
Teacher retirement on-behalf payments by the State of New Hampshire	206,022
Capital leases	258,594
Transfers to other funds	<u>(439,465)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 27,164,534</u></u>



## **OTHER SUPPLEMENTARY INFORMATION**

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Combining Balance Sheet - Nonmajor Governmental Funds June 30, 2007

	Grants Fund	Food Service Fund	Capital Reserves	Other Grants	Roof Bond	High School Addition	Total Nonmajor Governmental Funds
<b>Assets</b>							
Investments	\$ -	\$ 105,161	\$ -	\$ -	\$ 93,037	\$ 20,609	\$ 218,807
Receivables, net	-	1,050	-	5,065	50,000	-	56,115
Due from other governments	49,767	8,678	992,563	-	-	-	1,051,008
Due from other funds	2,744	27,199	-	234,053	-	-	263,996
Inventories	-	7,500	-	-	-	-	7,500
Total assets	<u>\$ 52,511</u>	<u>\$ 149,588</u>	<u>\$ 992,563</u>	<u>\$ 239,118</u>	<u>\$ 143,037</u>	<u>\$ 20,609</u>	<u>\$ 1,597,426</u>
<b>Liabilities and Fund Balances</b>							
Liabilities:							
Accounts payable	\$ -	\$ 42	\$ -	\$ -	\$ -	\$ -	\$ 42
Accrued expenses	27,270	-	-	-	-	-	27,270
Due to other funds	21,562	142,046	-	27,206	59,808	7,737	258,359
Deferred revenue	3,679	-	-	15,947	-	-	19,626
Total liabilities	<u>52,511</u>	<u>142,088</u>	<u>-</u>	<u>43,153</u>	<u>59,808</u>	<u>7,737</u>	<u>305,297</u>
Fund balances:							
Reserved for:							
Encumbrances	-	-	-	195,965	-	-	195,965
Inventories	-	7,500	-	-	-	-	7,500
Unreserved	-	-	992,563	-	83,229	12,872	1,088,664
Total fund balances	<u>-</u>	<u>7,500</u>	<u>992,563</u>	<u>195,965</u>	<u>83,229</u>	<u>12,872</u>	<u>1,292,129</u>
Total liabilities and fund balances	<u>\$ 52,511</u>	<u>\$ 149,588</u>	<u>\$ 992,563</u>	<u>\$ 239,118</u>	<u>\$ 143,037</u>	<u>\$ 20,609</u>	<u>\$ 1,597,426</u>

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2007

	Grants Fund	Food Service Fund	Capital Reserves	Other Grants	Roof Bond	High School Addition	Total Nonmajor Governmental Funds
<b>Revenues</b>							
Local sources	\$ -	\$ 559,114	\$ 47,517	\$ 46,339	\$ 5,261	\$ 996	\$ 659,227
State of New Hampshire sources	-	8,823	-	-	-	-	8,823
Federal sources	802,583	166,558	-	-	-	-	969,141
Miscellaneous	4,600	-	-	-	-	-	4,600
Operating transfers in	-	23,500	220,000	195,965	-	-	439,465
Total revenues and other financing sources	<u>807,183</u>	<u>757,995</u>	<u>267,517</u>	<u>242,304</u>	<u>5,261</u>	<u>996</u>	<u>2,081,256</u>
<b>Expenditures</b>							
Instruction	460,217	-	-	44,573	-	-	504,790
Support services	328,335	-	-	-	-	-	328,335
General administration	4,600	3,000	-	-	-	-	7,600
Executive administration	2,400	-	-	-	-	-	2,400
Food service program	-	730,204	-	-	-	-	730,204
Miscellaneous	11,631	-	-	-	-	-	11,631
Total expenditures and other financing sources	<u>807,183</u>	<u>733,204</u>	<u>-</u>	<u>44,573</u>	<u>-</u>	<u>-</u>	<u>1,584,960</u>
Excess revenue and other financing sources over (under) expenditures and other financing uses	-	24,791	267,517	197,731	5,261	996	496,296
Fund balances - beginning of year	-	(17,291)	725,046	(1,766)	77,968	11,876	795,833
Fund balances - end of year	<u>\$ -</u>	<u>\$ 7,500</u>	<u>\$ 992,563</u>	<u>\$ 195,965</u>	<u>\$ 83,229</u>	<u>\$ 12,872</u>	<u>\$ 1,292,129</u>

## **FEDERAL AWARDS SUPPLEMENTARY INFORMATION**

# GRZELAK AND COMPANY, P.C.

## Certified Public Accountants

Members – American Institute of CPA's  
Members – New Hampshire Society of CPA's

Post Office Box 8  
Laconia, New Hampshire 03247  
Tel 524-6734 Fax 524-6071

### **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 Board  
Kearsarge Regional School District  
New London, New Hampshire

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kearsarge Regional School District, as of and for the year ended June 30, 2007, which collectively comprise the Kearsarge Regional School District's basic financial statements and have issued our report thereon dated January 17, 2008. 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.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kearsarge Regional School District's internal control over financial reporting as a basis for designing our auditing procedures 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 Kearsarge Regional School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Kearsarge Regional School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Kearsarge Regional School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Kearsarge Regional School District's financial statements that is more than inconsequential will not be prevented or detected by the Kearsarge Regional School District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

#### Financial Statement Findings - 2007-1, 2007-2, 2007-3, 2007-4, 2007-5 and 2007-6

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Kearsarge Regional School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 to 2007-4 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kearsarge Regional School 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.

Kearsarge Regional School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Kearsarge Regional School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, School Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Grzelak and Co., P.C.*

**GRZELAK AND COMPANY, P.C., CPA's**

Laconia, New Hampshire  
January 17, 2008

# **GRZELAK AND COMPANY, P.C.**

## **Certified Public Accountants**

Members – American Institute of CPA's  
Members – New Hampshire Society of CPA's

Post Office Box 8  
Laconia, New Hampshire 03247  
Tel 524-6734 Fax 524-6071

### **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the School Board  
Kearsarge Regional School District  
New London, New Hampshire

#### Compliance

We have audited the compliance of Kearsarge Regional School District, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Kearsarge Regional School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Kearsarge Regional School District's management. Our responsibility is to express an opinion on Kearsarge Regional School District's compliance based on our audit.

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 Kearsarge Regional School 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. Our audit does not provide a legal determination of Kearsarge Regional School District's compliance with those requirements.

In our opinion, Kearsarge Regional School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

#### Internal Control Over Compliance

The management of Kearsarge Regional School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Kearsarge Regional School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Kearsarge Regional School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-1 to 2007-4 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 2007-1 to 2007-4 to be material weaknesses.

Kearsarge Regional School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Kearsarge Regional School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, School Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Grzelak and Co., P.C.*

**GRZELAK AND COMPANY, P.C., CPA's**  
Laconia, New Hampshire  
January 17, 2008



## **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Federal Grantor / Pass-Through Grantor Program or Cluster Title	Federal CFDA #	Pass Through ID #	Expenditures of Federal Awards
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through the NH Surplus Distribution Section			
Food Donation	10.550		\$ 39,820
Passed through the NH Department of Education			
<b>CHILD NUTRITION CLUSTER</b>			
School Breakfast Program	10.553		22,263
National School Lunch Program	10.555		103,652
School Milk Program for Children	10.556		823
			<u>126,738</u>
			<u>166,558</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through the NH Department of Education			
<b>SPECIAL EDUCATION CLUSTER</b>			
Special Education - Grants to States (IDEA, PART B)	84.027	72553	484,571
Special Education - Sliver Grant	84.027	62657	26,181
Special Education - Preschool Grants (IDEA Preschool)	84.173	72750	10,411
			<u>521,163</u>
Adult Education - State Grant Program	84.002	77307	260
Title I, Grants to Local Educational Agencies (LEAs)	84.010	60065	7,481
Title I, Grants to Local Educational Agencies (LEAs)	84.010	70069	169,924
Safe and Drug-Free Schools and Communities State Grants	84.186	76541	10,139
Innovative Education Program Strategies	84.298	76072	3,045
Education Technology State Grants	84.318	64492	7,814
Education Technology State Grants	84.318	74492	466
Title II-A Improving Teacher Quality State Grants	84.367	64858	338
Title II-A Improving Teacher Quality State Grants	84.367	74858	81,953
			<u>281,420</u>
			<u>802,583</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 969,141</u>

The accompanying notes are an integral part of this schedule.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Notes to Schedule of Expenditures of Federal Awards June 30, 2007

The schedule of expenditures of federal awards is prepared in accordance with the regulations defined in the Office of Management and Budget's (OMB), Circular No. A-133, "Audits of States, Local Governments, and Non-Profit Organizations." The schedule of expenditures of federal awards is prepared for the period covered by the related financial statements, the year ended June 30, 2007.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The operating activities of all federal awards are accounted for within the governmental funds (general and special revenue) of the District. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The expenditures reported in the schedule are based on requirements defined in OMB Circular A-133 and include, but are not limited to, expenditure/expense transactions associated with grants, cost reimbursement contracts, the receipt or use of program income and the distribution or consumption of food commodities. During the year ended June 30, 2007 the District expended funds associated with grants, received surplus commodities and received cost reimbursements for meals served.

Expenditures associated with grants are made on a reimbursement basis and any excess of expenditures over receipts are recorded as an accounts receivable at year-end.

### 2. RECONCILIATION TO FINANCIAL STATEMENT AMOUNT

The total expenditures of federal awards per the accompanying schedule of expenditures of federal awards reconciles to the Statement of Revenues, Expenditures and Changes in Fund Balances – Major and Other Governmental Funds as follows:

<b>Schedule of Expenditures of Federal Awards</b>	<u><u>\$ 969,141</u></u>
 <b>Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Government Funds</b>	
Major Fund	
Grants Fund - Federal sources	\$ 802,583
Other Governmental Funds	
Food Service Fund - Federal sources	<u>166,558</u>
	<u><u>\$ 969,141</u></u>

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Schedule of Findings and Questioned Costs 1 - Summary of Auditor's Results June 30, 2007

- i. The type of auditor's report issued on the financial statements of Kearsarge Regional School District – Unqualified.
- ii. A statement (if applicable) that (if) significant deficiencies and significant deficiencies that are material weaknesses in the internal control over financial reporting were disclosed by the audit of the financial statements – Financial statement findings 2007-1 to 2007-4 were reported as significant deficiencies that were also considered material weaknesses.
- iii. A statement as to whether the audit disclosed any instances of noncompliance which is material to the financial statements of the auditee which would be required to be reported in accordance with Government Auditing Standards – No findings.
- iv. A statement (if applicable) that (if) significant deficiencies in internal control over major federal award programs were disclosed by the audit and whether any such conditions were material weaknesses – Financial statement findings 2007-1 to 2007-4 is considered material weaknesses.
- v. The type of auditor's report issued on compliance for major federal award programs - Unqualified.
- vi. Statement as to whether the audit disclosed any audit findings which the auditor is required to report under OMB Circular A-133: Section 510(a):
  - Reportable Conditions in Internal Control over Major Programs – Financial statement findings 2007-1 to 2007-4.
  - Material Noncompliance with the Provisions of Laws, Regulations, Contracts or Grant Agreements Related to a Major Program - No findings.
  - Known Questioned Costs which are Greater Than \$10,000 for a Type of Compliance Requirement for a Major Program - No findings.
  - Known Questioned Costs which are Greater Than \$10,000 for a Federal Program which is Not Audited as a Major Program - No findings.
  - Circumstances concerning why the Auditor's Report on Compliance for Major Programs is Other Than Unqualified - No findings.
  - Known Fraud Affecting a Federal Award - No findings.
  - Instances where the Results of the Audit Follow Up Procedures Disclosed that the Summary Schedule of Prior Audit Findings prepared by the Auditee Materially Misrepresents the Status of any Prior Audit Finding - No findings.
- vii. The programs identified and tested as major programs included:
  - SPECIAL EDUCATION CLUSTER
    - CFDA # 84.027 - Special Education - Grants to States
    - CFDA # 84.173 - Special Education – Preschool Grants
- viii. Dollar Threshold used to Distinguish between Type A and Type B Programs - \$300,000.
- ix. Statement as to whether Auditee Qualified as a Low-Risk Auditee under OMB Circular A-133: Section 530 – No.

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Schedule of Findings and Questioned Costs 2 - Financial Statement Findings June 30, 2007

### CONTROL DEFICIENCIES - MATERIAL WEAKNESSES

#### 2007-1 Inadequate Documentation of the Components of Internal Control Including Risk Assessment, Anti-Fraud Programs and Monitoring

**CONDITIONS:** The District does not maintain adequate documentation of the components of internal control, including risk assessment, anti-fraud programs and monitoring.

**CRITERIA:** Internal control framework and its interpretive guidance (promulgated by SAS 112 - AICPA, 2006 and by the Government Accountability Office - GAO, 2007), emphasize that management is responsible for establishing and maintaining internal controls (including risk assessment) and for the fair presentation of financial statements in conformity with U.S. generally accepted accounting principles. The governing body (School Board) is ultimately responsible for internal control; it must ensure that management meets all of its responsibilities. The Committee of Sponsoring Organizations (COSO I, 1992 and COSO II Risk Assessment, 2004) "Internal Control - Integrated Framework" provides the criteria for evaluating internal control. COSO identified five essential components that needed to be in place to ensure that internal control is adequate or comprehensive:

1. There must be a sound Control Environment ("tone at the top," organizational "culture").
2. There must be a regular, ongoing Assessment of Risk (including fraud) and, as modified in 2004, consist of objective setting, event identification, risk assessment and risk response (avoid, reduce, share, accept).
3. Control-related Policies and Procedures must be designed, implemented, and maintained to address the risks thus identified and ensure that management directives are carried out (approvals, authorizations, verifications, reconciliations, reviews, asset security and segregation of duties).
4. There must be adequate Communication of pertinent and timely Information.
5. There must be a regular and ongoing Monitoring of control related policies and procedures to ensure that they continue to function as designed and that any problems disclosed are handled appropriately.

**EFFECT:** Because the District does not maintain adequate documentation of the components of internal control, there is the "potential" (both *individually* and in *aggregate*) for control deficiencies which, based upon their "*magnitude*" and "*likelihood*," could constitute "significant deficiencies" or "material weaknesses."

A control deficiency 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 misstatements on a timely basis. A control deficiency can be in "design" or "operation."

A significant deficiency is a control deficiency, *or combination* of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles (GAAP) such that there is "more than a remote likelihood" that a misstatement of the entity's financial statements that is "more than inconsequential" will not be prevented or detected.

A material weakness is a significant deficiency, *or combination* of significant deficiencies, that results in "more than a remote likelihood" that a "material misstatement" of the financial statements will not be prevented or detected.

**RECOMMENDATION:** Management should develop the procedures necessary to resolve the control deficiencies noted. The Finance and Audit Committee and the School Board must perform adequate monitoring in order to determine if the District's control deficiencies have been resolved.

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Schedule of Findings and Questioned Costs 2 - Financial Statement Findings June 30, 2007

### CONTROL DEFICIENCIES - MATERIAL WEAKNESSES

#### 2007-2 Maintaining the General and Subsidiary Ledgers and Financial Reporting

**CONDITIONS:** Adequate control over the design of the general and subsidiary ledgers is not maintained in order to provide accurate, timely and reliable financial information for making management decisions or for financial reporting for the fiscal year ended June 30, 2007.

**CRITERIA:** Internal controls should be in place that provide reasonable assurance that the general ledger and subsidiary ledgers, including interim and year end budgetary and financial reports, accurately and timely reflect the balances and transactions of the funds of the District in order to allow the Superintendent of Schools, Finance and Audit Committee and School Board to make informed financial decisions in allocating District financial resources throughout the fiscal year.

**EFFECT:** Because of the control deficiencies noted there is the "potential" (both individually and in aggregate) for the following occurrences:

##### Cash

Monthly reconciling items noted during the year by employees were not reviewed and posted by supervisory personnel.

##### Receivables / Revenues

Billings for amounts due the District, both from employees outside and inside the SAU, are not recorded in the general or any subsidiary ledger and revenue transactions basically reflect the "cash basis." The extent of such transactions can be managed through the Districts general ledger accounts.

##### Inventories / Purchases / Expenditures

Amounts disbursed for consumables are recorded as expenditures without corresponding adjustment to actual physical amounts on hand (in subsidiary ledgers); i.e., the purchase method. For significant items (fuel oil and food noted) month end physical inventories should be recorded in order to determine the amount used under the consumption method for purposes of analysis, risk management and monitoring.

##### Capital Assets / Additions / Disposals

Amounts for capital asset items adequately maintained in the District capital asset control system are not routinely (at least periodic) compared to actual amounts by observation by designated employees under a written plan or procedure.

##### Payables / Accrued Expenses / Expenditures

Recognition of expenditures based on amounts payable by the District are not recorded in the general or any subsidiary ledger; expenditure transactions basically reflect the "cash basis." The District may reduce risks related to this deficiency by (1) reviewing the open encumbrance system and (2) searching for expenditures that have not been paid when processing month end closing procedures.

**RECOMMENDATION:** Management should develop the procedures necessary to resolve the control deficiencies noted. The Finance and Audit Committee and the School Board must perform adequate monitoring in order to determine if the District's control deficiencies have been resolved.



# KEARSARGE REGIONAL SCHOOL DISTRICT

## Schedule of Findings and Questioned Costs 2 - Financial Statement Findings June 30, 2007

### CONTROL DEFICIENCIES - MATERIAL WEAKNESSES

#### 2007-3 Maintaining the General Ledger and Financial Reporting

The District Business Manager position was vacant from October of 2006 through late July of 2007; an interim part-time consultant, however, assisted the District through June of 2007. The year end closing procedures were performed by the new Business Manager from the time of hiring through late fall. Certain components of this control deficiency are made as they represented the underlying circumstances during the period ending June 30, 2007 even in conditions in which the new Business Manager identified the items and, when applicable, made correction as part of the closing for the audit period.

**CONDITIONS:** Adequate control over the design and operation of the general ledger was not maintained in order to provide accurate, timely and reliable financial information for making management decisions or for financial reporting for the fiscal year ended June 30, 2007.

**CRITERIA:** Internal controls, including providing adequate resources for the hiring and retaining qualified financial personnel, should be in place that provide reasonable assurance that the general ledger, including interim and year end budgetary and financial reports, accurately and timely reflect the balances and transactions of the funds of the District in order to allow the Superintendent of Schools, Finance and Audit Committee and School Board to make informed financial decisions in allocating District financial resources throughout the fiscal year. The Superintendent of Schools attempted to mitigate the impact of the control deficiency by (1) employing an interim part-time business consultant, and (2) exercising very conservative and cautious cost control.

**EFFECT:** Because of the control deficiencies noted, post year-end closing and audit adjustments were required to be made for: beginning balances (except for the General Fund) were not adjusted for all prior year closing and audit entries and related reversing entries such adjustments were not timely made, line item budgetary control was not utilized (defaulting to "bottom line" expenditure control); the impact of current year end closing entries on inter-period statutory appropriation authority control was not present until months after the new Business Manager was hired; the availability of funds was not accurate or timely reflected during the period (\$70,149 of prior year encumbrances carried forward and \$220,000 of authorized transfers to trust funds were approved by voters and made, but not included in the system's budget, i.e., under recording of the budget of available General Fund appropriations); \$725,046 of beginning capital reserve amounts due from the Trustees of Trust Funds and current year transfers in of \$220,000 and \$47,517 of investment earnings were not recorded; revenues earned by the Food Service Fund were credited to an "other grant" fund resulting in the net activity of the Food Service Fund being understated by \$25,591 and the other grant fund being overstated by the same amount; the beginning Capital Projects Fund \$502,659 pre-bond issuance deficit was not recorded; the \$194,287 arbitrage rebate liability on bond interest earned beyond the amount allowed by US Treasury regulations was not determined or recorded until months after fiscal year end; the intergovernmental grant receivables were recorded on the basis of the current amount earned plus \$40,779 of amounts that represented cash requests for the subsequent quarter; retiree tax related changes as a result of US Circuit Court rulings were not timely acted upon; and numerous, significant and untimely closing journal entries for corrections, reclassifications, allocations and inter-fund activities were made months after fiscal year end.

**RECOMMENDATION:** Management should develop the procedures necessary to resolve the control deficiencies noted. The Finance and Audit Committee and the School Board must perform adequate monitoring in order to determine if the District's control deficiencies have been resolved.

# KEARSARGE REGIONAL SCHOOL DISTRICT

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## Schedule of Findings and Questioned Costs 2 - Financial Statement Findings June 30, 2007

### CONTROL DEFICIENCIES - MATERIAL WEAKNESSES

#### 2007-4 Inadequate Controls Over Nonroutine and Nonsystematic Transactions Including Journal Entries

**CONDITIONS:** The District does not maintain adequate control over nonroutine and nonsystematic transactions, including journal entries.

**CRITERIA:** An adequate internal control framework requires that controls be in place over procedures used to enter transactions into the general ledger; including initiating, authorizing, recording and processing "journal entries" and "recurring and nonrecurring adjustments" to the financial statements.

**EFFECT:** After the School Board has authorized payments based upon Board "orders" under a specific finance policy of the District, including those indicating the final expenditure account codes and amounts, such coding can be subsequently be changed (for correction of errors or otherwise) by financial personnel without oversight authorization by executive management or the School Board.

**RECOMMENDATION:** Management and the School Board should consider a control procedure that requires that all identified journal entries are summarized in a system generated report prepared by financial management and submitted to executive management or the School Board for "after the fact" authorization. This control procedure could be tiered based upon established monetary levels considered both individually and in the aggregate.

# KEARSARGE REGIONAL SCHOOL DISTRICT

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## Schedule of Findings and Questioned Costs 2 - Financial Statement Findings June 30, 2007

### CONTROL DEFICIENCIES

#### 2007-5 Inadequate Controls Over Decentralized Activities and Systems

**CONDITIONS:** The District does not maintain adequate control over decentralized school building (1) food service sales - recognition and recording and (2) custodial principal petty cash, scholarship and student agency funds - receipts, disbursements, investment, interest allocation, transfers and balances.

**CRITERIA:** An adequate internal control framework requires that controls be in place over decentralized activities and systems.

**EFFECT:** Food service sales are recognized when cash is deposited. Sales should be recognized using the District's point of sale software system daily reports reconciled to daily deposits. Revenue should be recognized based upon sales made. Such reports can also track, control and monitor student payment, use and balance information. The custodial accounts of the Principal, including petty cash, scholarship and student agency funds, are not all recorded or communicated to supervisory management or those charged with governance. Scholarship funds, which are invested in mutual funds, may be required to be in the custody of the Trustees of Trust Funds in accordance with state law and/or may be limited as to allowable investments.

**RECOMMENDATION:** Management should communicate counsel and with the NH Department of Justice - Charitable Trust Division regarding the custodial and investment laws and regulations for private purpose scholarship funds. Management should develop the procedures necessary to resolve the control deficiencies noted. The Finance and Audit Committee and the School Board must perform adequate monitoring in order to determine if the District's control deficiencies have been resolved.

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### CONTROL DEFICIENCIES

#### 2007-6 Inadequate Controls Over Risk Sensitive and Related Party Transactions

**CONDITIONS:** The District does not maintain adequate control over (1) risk sensitive transactions credit card payments and reimbursements and open-store accounts at vendors, and (2) related party transactions for similar payments, reimbursements or remuneration to certain employees, administrators and those charged with governance.

**CRITERIA:** An adequate internal control framework requires that controls be in place over risk sensitive and related party transactions.

**EFFECT:** Payments and reimbursements on risk sensitive and related party transactions are not subject to additional control procedures (i.e. scrutiny) based upon the application of risk assessment. The risks for credit card payments and reimbursements and open-store accounts at vendors are based upon "inherent risks" for such transactions. The risks for related party transaction payments, reimbursements or remuneration are based upon factors other than magnitude (i.e. potential "conflicts of interest").

**RECOMMENDATION:** Management and the School Board should consider a control procedure that requires that all identified risk sensitive and related party transactions to be prepared by management and submitted to the School Board on a separate manifest.

# KEARSARGE REGIONAL SCHOOL DISTRICT

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## Schedule of Findings and Questioned Costs 3 - Federal Awards June 30, 2007

### CONTROL DEFICIENCIES

**FEDERAL AWARDS:** The internal control deficiencies identified as 2007-1 through 2007-6 in the "financial statement findings" section of the Schedule of Findings and Questioned Costs apply to federal awards. Of these findings, control deficiencies 2007-1 through 2007-4 were identified as "material weaknesses."

Questioned costs related to these findings were \$ -0-.

See Management Views and Corrective Action Plan.