

KEARSARGE REGIONAL SCHOOL DISTRICT

New London, New Hampshire

FINANCIAL STATEMENTS

June 30, 2009

KEARSARGE REGIONAL SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

GRZELAK AND COMPANY, P.C.

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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, 2009, which collectively comprise the Kearsarge Regional School 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, 2009, 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 December 10, 2009, 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 24 and 52 through 55, 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 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 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

December 10, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2009.

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, 2009. 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, 2008 and 2009 by \$223,292 or 2% to \$12,827,106.

Net assets consisted of: \$16,041,714 invested in capital assets net of related debt; \$1,642,217 restricted amounts, net, for capital projects, food service, capital reserves, and other non-major funds for purposes of each established fund; and, an unrestricted negative net asset balance of (\$4,856,825). This is the result of having long-term commitments that are more than currently available resources; primarily due to the recording of the District's \$2,443,893 long-term liability for early retiree's payments (\$1,442,240) and related healthcare (\$1,001,653) under the newly adopted provisions of Governmental Accounting Standards Board (GASB) Statement 47.

The District's total revenues were \$34,283,497. The amount that was paid by taxpayers through property taxes was \$27,055,939; which consisted of \$20,267,633 paid in the form of local property taxes and \$6,788,306 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 \$2,775,406 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.

The District's total expenses were \$34,060,205. Instruction and support services account for 89% of total expenses.

The General Fund balance increased \$236,822 during the year from a balance of \$875,758 at June 30, 2008 to a \$1,112,580 fund balance at June 30, 2009. The budgetary basis revenues actual was in excess of estimated in the amount of \$521,287 of which \$216,669 was due to unanticipated loan proceeds. Total actual expenditures were less than authorized appropriations by \$591,293.

The June 30, 2009 ending fund balance consisted of General Fund reserves for encumbrances in the amount of \$272,399 and unreserved, undesignated fund balance, in the amount of \$731,885 and \$50,000 in designated fund balance along with \$58,296 in inventories. State law mandates that unreserved, undesignated fund balance be used to reduce the school district assessment in the subsequent year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Food Service Fund balance decreased \$4,560 during the year from a fund balance of \$12,084 at June 30, 2008 to a fund balance of \$7,524 (representing the amount of reserved fund balance for inventory) at June 30, 2009. The increase was primarily the result of a General Fund transfer in the amount of \$112,605 that was made as an operating subsidy.

The Capital Reserve Fund balances increased \$140,496 (\$125,000 in new amounts approved by voters and \$15,496 in investment earnings) during the year from \$1,150,345 at June 30, 2008 to \$1,290,841 at June 30, 2009. 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.

At June 30, 2009, the District had invested \$40,286,395 (\$51,862,734 at cost or estimated cost less accumulated depreciation of \$11,576,339) in a broad range of capital assets, including land and land improvements, buildings, furniture and general equipment, vehicles and technology assets. This amount represents a net decrease of \$1,291,907 or 3% from the prior year.

At June 30, 2009, the District had \$23,682,799 of long-term obligations (\$27,043,357 in total obligations less the current portion of \$3,360,558). This amount represents a net decrease of \$2,546,162 from the prior year based upon reductions primarily attributable to bond payments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

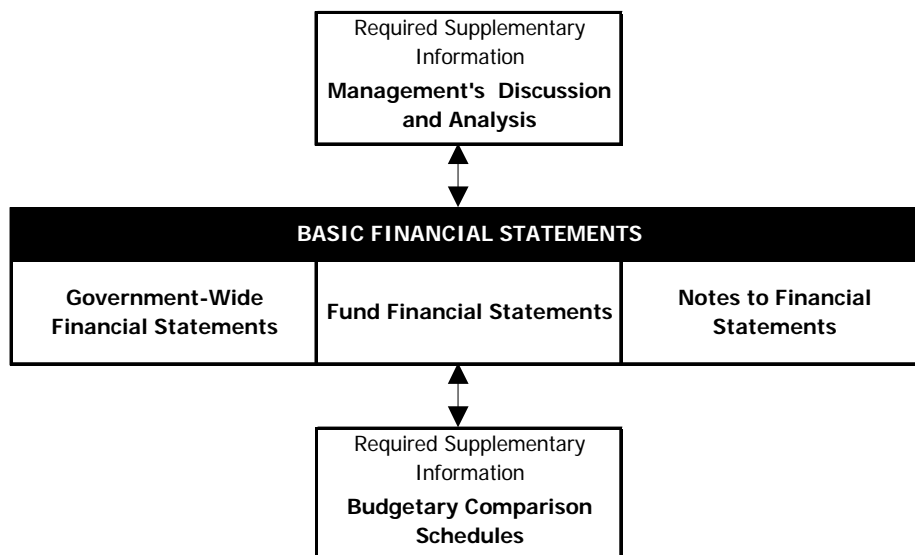
This discussion and analysis is intended to serve as an introduction to the District's annual report, which consists of a series of basic financial statements, notes and related financial or compliance information. The District's financial statements are comprised of six primary sections or components: (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
SCOPE	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
REQUIRED FINANCIAL STATEMENTS	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
ACCOUNTING BASIS	Accrual	Modified Accrual	Accrual
MEASUREMENT FOCUS	Economic Resources	Current Financial Resources	Economic Resources
TYPE OF INFORMATION ASSETS AND LIABILITIES	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
TYPE OF INFORMATION REVENUES, EXPENSES, AND EXPENDITURES	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

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

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, 2008 and 2009 by \$223,292 or 2% to \$12,827,106.

Exhibit B – 1 NET ASSETS

	<u>2008</u>	<u>2009</u>	<u>Change</u>
Assets			
Current and other assets	\$ 4,195,988	\$ 4,490,310	\$ 294,322
Noncurrent assets	41,578,302	40,286,395	(1,291,907)
Total assets	45,774,290	44,776,705	(997,585)
Liabilities			
Current liabilities	6,991,542	8,266,800	1,275,258
Noncurrent liabilities	26,178,934	23,682,799	(2,496,135)
Total liabilities	33,170,476	31,949,599	(1,220,877)
Net Assets			
Investment in capital assets, net of related debt	14,652,984	16,041,714	1,388,730
Restricted	1,853,234	1,642,217	(211,017)
Unrestricted	(3,902,404)	(4,856,825)	(954,421)
Total net assets	<u>\$ 12,603,814</u>	<u>\$ 12,827,106</u>	<u>\$ 223,292</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, buildings, furniture and equipment, vehicles 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. Noncurrent assets decreased by \$1,291,907 primarily due to current year depreciation. Current assets increased by \$294,322.

Net assets consisted of: \$16,041,714 invested in capital assets net of related debt; \$1,642,217 restricted amounts, net, for grants, food service, capital projects, capital reserves, and other non-major funds for purposes of each established fund; and, an unrestricted negative net asset balance of (\$4,856,825).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Change in Net Assets

The District's total revenues were \$34,283,497 while total expenses were \$34,060,205 resulting in a change in net assets of \$223,292.

Revenues

Exhibit B-2 shows that a significant portion, 93%, of the District's total revenues came from the school district assessment (59%) and State of New Hampshire source intergovernmental revenues (34%) primarily derived from local and state-wide property taxes and other state aid programs. Investment income and operating grants and contributions provided 4% of total revenues, 2% related to charges for services and 1% for federal sources.

- School district assessment, 59% and 55% for the fiscal years ended June 30, 2009 and 2008, respectively, an increase of 13% (\$2,344,419 more) over the prior year amount.
- State of New Hampshire source intergovernmental revenues, 34% and 36% for the fiscal years ended June 30, 2009 and 2008. A decrease of 2% (\$158,738 less) from the prior year amount.
- Operating grants and contributions, 4% for the fiscal years ended June 30, 2009 and 2008, an increase of 2% (\$27,462 more) over the prior year amount.
- Revenues for charges for services, 2% for the fiscal years ended June 30, 2009 and 2008, respectively, a decrease of 4% (\$24,758 less) from the prior year amount.
- Investment income, less than 1% and 2% for fiscal years ended June 30, 2009 and 2008, respectively. A decrease of 92% (\$624,982 less) from the prior year amount primarily due to the Middle School Capital investment of bond proceeds.

Exhibit B-2 SOURCES OF DISTRICT REVENUES

	<u>2008</u>	<u>%</u>	<u>2009</u>	<u>%</u>	<u>Change</u>	<u>%</u>
Program Revenues						
Charges for services	\$ 676,968	2%	\$ 652,210	2%	\$ (24,758)	-4%
Operating grants and contributions	1,276,608	4%	1,304,070	4%	27,462	2%
General Revenues						
School district assessment	17,923,214	55%	20,267,633	59%	2,344,419	13%
Local sources	78,399	0%	287,963	1%	209,564	267%
State of New Hampshire sources	11,687,602	36%	11,528,864	34%	(158,738)	-1%
Federal sources - Medicaid	195,542	1%	189,994	1%	(5,548)	-3%
Investment income	677,745	2%	52,763	0%	(624,982)	-92%
	<u>\$ 32,516,078</u>	<u>100%</u>	<u>\$ 34,283,497</u>	<u>100%</u>	<u>\$ 1,767,419</u>	<u>5%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Expenses

Exhibit B-3 shows that 89% of the District's total expenses were for instructional and support services.

- Instruction expenses, 61% and 60% for the fiscal years ended June 30, 2009 and 2008, respectively, an increase of 7% (\$1,398,361 more) over the prior year amount.
- Support service expenses, 28% and 30% for the fiscal years ended June 30, 2009 and 2008, respectively, an increase of 1% (\$139,594 more) over the prior year amount.
- Food service program expenses, 2% and 2% for the fiscal years ended June 30, 2009 and 2008, respectively, an increase of 1% (\$8,747 more) over the prior year amount.
- Unallocated interest expense, 4% for the fiscal years ended June 30, 2009 and 2008, an increase of 8% (\$96,666 more) over the prior year amount.
- Unallocated depreciation expense, 5% and 4% for the fiscal years ended June 30, 2009 and 2008, respectively, an increase of 15% (\$205,248 more) over the prior year amount primarily due to the capitalization of the Middle School.

Exhibit B-3 DISTRICT EXPENSES

	<u>2008</u>	<u>%</u>	<u>2009</u>	<u>%</u>	<u>Change</u>	<u>%</u>
Functions / Programs						
Instruction	\$ 19,263,515	60%	\$ 20,661,876	61%	\$ 1,398,361	7%
Support services	9,504,859	30%	9,644,453	28%	139,594	1%
Food service program	772,432	2%	781,179	2%	8,747	1%
Unallocated						
Interest	1,275,041	4%	1,371,707	4%	96,666	8%
Depreciation	1,395,742	4%	1,600,990	5%	205,248	15%
	<u>\$ 32,211,589</u>	<u>100%</u>	<u>\$ 34,060,205</u>	<u>100%</u>	<u>\$ 1,848,616</u>	<u>6%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

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).

Exhibit B-4 TOTAL AND NET COST OF SERVICES

	2008		2009	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Functions / Programs				
Instruction	\$ 19,263,515	\$ 17,970,446	\$ 20,661,876	\$ 19,328,792
Support services	9,504,859	9,504,859	9,644,453	9,644,453
Food service program	772,432	111,925	781,179	157,983
Unallocated				
Interest	1,275,041	1,275,041	1,371,707	1,371,707
Depreciation	1,395,742	1,395,742	1,600,990	1,600,990
	<u>\$ 32,211,589</u>	<u>\$ 30,258,013</u>	<u>\$ 34,060,205</u>	<u>\$ 32,103,925</u>

The total cost of all governmental activities this year was \$34,060,205; the total net cost was \$32,103,925. 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 \$27,055,939; which consisted of \$20,267,633 paid in the form of local property taxes and \$6,788,306 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 \$2,775,406 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.

Local Sources

- Earnings on investments were received in the amount of \$52,763.
- Other local sources were received in the amount of \$287,963.

MANAGEMENT'S DISCUSSION AND ANALYSIS

State Sources

- School building aid was received in the amount of \$1,553,583.
- Catastrophic aid was received in the amount of \$401,868.
- Vocational aid was received in the amount of \$9,701.

Federal Sources

- Medicaid reimbursements were received in the amount of \$189,994.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

General Fund

The general fund balance increased \$236,822 during the year from a balance of \$875,758 at June 30, 2008 to a \$1,112,580 fund balance at June 30, 2009. This was attributed to several factors. The budgetary basis revenues actual was in excess of estimated in the amount of \$521,287 of which \$216,669 was due to unanticipated loan proceeds. Total actual expenditures were less than authorized appropriations by \$591,293. The June 30, 2009 ending fund balance consisted of general fund reserves for encumbrances in the amount of \$272,399, unreserved, undesignated fund balance, in the amount of \$731,885, \$50,000 in designated fund balance along with \$58,296 in inventories. State law mandates that unreserved, undesignated fund balance be used to reduce the school district assessment in the subsequent year.

Major Funds

Food Service Fund

The food service fund is classified as a special revenue fund and is reported as a major fund in the basic financial statements. The food service fund balance decreased \$4,560 during the year from a fund balance of \$12,084 at June 30, 2008 to a fund balance of \$7,524 (representing the amount of reserved fund balance for inventory) at June 30, 2009. The increase was primarily the result of a General Fund transfer in the amount of \$112,605 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 and are reported as a major fund in the basic financial statements. The capital reserve fund balances increased \$140,496 (\$125,000 in new amounts approved by voters and \$15,496 in investment earnings) during the year from \$1,150,345 at June 30, 2008 to \$1,290,841 at June 30, 2009. 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.

Other Grants Fund

The other grants fund is classified as a special revenue fund and is reported as a major fund in the basic financial statements. It is used to account for various non-federal grants and donations which are designated for particular purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nonmajor Funds

Grants Fund

The grants fund is classified as a special revenue fund and is aggregated in the category nonmajor funds in the basic financial statements. The grants fund is used to account for federal grants and is reimbursement based; revenues equal the amount of the qualifying expenditures made. There is no fund balance.

Roof Bond Fund

The roof bond fund is classified as a capital project fund and is aggregated in the category nonmajor funds in the basic financial statements. The fund balance at June 30, 2009 was \$89,987.

High School Addition Fund

The high school addition fund is classified as a capital project fund and is aggregated in the category nonmajor funds in the basic financial statements. The fund balance at June 30, 2009 was \$13,954.

Middle School Fund

The middle school fund is classified as a capital project fund and is aggregated in the category nonmajor funds in the basic financial statements. The middle school project was completed during the year and the ending fund balance is \$0.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL FUND BUDGETARY HIGHLIGHTS

For the year ended June 30, 2009 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 \$521,287.

In general, revenues from the following sources exceeded original estimates (inflows with positive or negative variances over \$10,000):

- School Building Aide came in at \$51,642 less than budget due to a State reduction of funds which happened after the MS24 was approved.
- Tuition payments from other Local Education Agencies, as well as individuals for students attending KRSD, by \$45,385.
- Loan Proceeds of \$216,669.
- Other local sources by \$81,130.
- Special revenue fund \$23,293.
- Medicaid by \$89,994.
- Catastrophic Aide by \$28,868; Catastrophic aide is difficult to budget since the State does not consistently fund the total entitlement.

The original budget for the General Fund in the amount of \$33,139,535 consists of the total appropriation voted of \$35,210,535 less amounts representing offsets for other funds; \$799,327 for the Food Service Fund, \$756,000 for other Special Revenue Funds and \$665,000 as a supplemental appropriation to June 30, 2008, less a \$149,327 budgetary subsidy to the food service fund.

The final budget consists of \$33,139,535 original budget plus \$114,499 encumbered funds from the year ended June 30, 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Actual total outflows in the amount of \$32,662,741 were lower than the budgeted total appropriation of \$33,254,034 by a positive variance of \$591,293.

In general, budgetary line items throughout the functions / program categories resulted in positive or negative variances that were due to the efforts of management to not exceed the bottom line budget (adjusted for any increase in unanticipated revenues) as a result of (outflows with positive or negative variances over \$100,000):

- Identification of Support services Instructional staff less than appropriations by \$137,016.
- Identification of operations and maintenance less than appropriations by \$259,681.
- Identification of student transportation cost, including fuel surcharges, less than appropriations by \$123,066 largely due to a reduction of need for out of district transportation.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had invested \$40,286,395 (\$51,862,734 at cost or estimated cost less accumulated depreciation of \$11,576,339) in a broad range of capital assets, including land and land improvements, buildings, furniture, general equipment, vehicles and technology assets as summarized in Exhibit C-1.

This amount represents a net decrease of \$1,291,907 or 3% from the prior year. This year's major additions are also summarized in Exhibit C-1.

Net Capital Assets	<u>2008</u>	<u>2009</u>	<u>Change</u>
Land and improvements	\$ 800,108	\$ 800,108	0%
Buildings	44,676,292	44,676,292	0%
Furniture, equipment & vehicle	3,231,016	3,317,829	3%
Technology equipment	<u>2,892,308</u>	<u>3,068,505</u>	<u>6%</u>
Capital assets, at cost	51,599,724	51,862,734	1%
Accumulated Depreciation	<u>(10,021,422)</u>	<u>(11,576,339)</u>	<u>-16%</u>
Capital assets, net	<u>\$ 41,578,302</u>	<u>\$ 40,286,395</u>	<u>-3%</u>
Increase in Capital Assets, Net		<u>\$ (1,291,907)</u>	
Major Additions			
Increase in furniture and equipment		\$ 323,706	
Depreciation		(1,600,990)	
Gain (Loss) on disposals		(14,623)	
		<u>\$ (1,291,907)</u>	

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Debt

At June 30, 2009, the District had \$23,682,799 of long-term obligations (\$27,043,357 in total obligations less the current portion of \$3,360,558) as summarized in Exhibit C-2.

This amount represents a net decrease of 9.53% from the prior year.

Exhibit C-2 LONG-TERM LIABILITIES

Long-Term Liabilities	Governmental Activities		
	<u>2008</u>	<u>2009</u>	<u>Change</u>
General obligation bonds	\$ 27,064,756	\$ 24,561,175	-9.25%
Capital leases	238,172	27,840	-88.31%
Compensated absences	9,598	10,449	8.87%
Early retirement obligations - payments	1,526,048	1,442,240	-5.49%
Early retirement obligations - healthcare	750,945	1,001,653	33.39%
	<u>29,589,519</u>	<u>27,043,357</u>	<u>-8.60%</u>
Less current portion	<u>(3,410,585)</u>	<u>(3,360,558)</u>	<u>-1.47%</u>
	<u>\$ 26,178,934</u>	<u>\$ 23,682,799</u>	<u>-9.53%</u>
Decrease, Net		<u>\$ (2,496,135)</u>	
Changes			
Principal payments on general obligation bonds		\$ (2,686,974)	
Loan proceeds		216,669	
Principal payments on capital lease obligations		(210,332)	
Amortization of bond premiums		(33,276)	
Change in compensated absences		851	
Change in retirement obligations		166,900	
Change in current portion		50,027	
		<u>\$ (2,496,135)</u>	

State law (RSA 195:611) 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, 2009 the estimated legal debt limit is approximately \$319,400,000 on equalized valuation of \$3,194,000,000.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

District management and the School Board considered many factors when submitting the fiscal year 2009-2010 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. The Equitable Education Grant increased from \$2,775,407 in 2008-2009 to \$2,868,172 for 2009-2010. The State Education tax increased from \$6,788,306 in 2008-2009 to \$6,937,596 for 2009-2010.

Exhibit D-1 STATE TAX AND ADEQUACY GRANTS

	Equitable Education Grant 2008-2009	State Education Tax 2008-2009
Town of Bradford	\$ 574,678	\$ 483,720
Town of New London	-	2,597,855
Town of Newbury	-	1,616,566
Town of Springfield	391,110	410,953
Town of Sutton	330,269	633,814
Town of Warner	1,107,620	659,245
Town of Wilmot	371,730	386,153
	<u>\$ 2,775,407</u>	<u>\$ 6,788,306</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 2008-2009 and 2009-2010.

Exhibit D-2 SCHOOL DISTRICT ASSESSMENT

	Fiscal Year (Actual) 2008-2009	Fiscal Year (Budget) 2009-2010	Change
Town of Bradford	\$ 1,987,853	\$ 2,131,123	7%
Town of New London	5,769,984	6,052,466	5%
Town of Newbury	3,590,536	3,767,230	5%
Town of Springfield	1,866,630	2,038,579	9%
Town of Sutton	2,399,333	2,521,678	5%
Town of Warner	2,899,203	2,856,459	-1%
Town of Wilmot	1,754,094	1,828,861	4%
	<u>\$ 20,267,633</u>	<u>\$ 21,196,396</u>	<u>5%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 Jerry Frew, 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, 2009

Primary Government
Governmental
Activities

ASSETS

Current Assets

Cash and cash equivalents	\$ 903,015
Investments	1,741,456
Receivables, net	145,311
Due from other governments	1,634,708
Inventories	65,820
Current assets	<u>4,490,310</u>

Noncurrent Assets

Capital assets:	
Land, improvements, and construction in progress	506,810
Other capital assets, net of accumulated depreciation	<u>39,779,585</u>
Noncurrent assets	<u>40,286,395</u>
Total assets	<u>44,776,705</u>

LIABILITIES

Current Liabilities

Accounts payable	219,199
Accrued expenses	4,362,078
Deferred revenue	324,965
Current portion of long-term liabilities	<u>3,360,558</u>
Current liabilities	<u>8,266,800</u>

Noncurrent Liabilities

Bonds payable	21,593,237
Unamortized bond premiums	311,057
Compensated absences	10,449
Capital lease obligations	21,621
Early retirement obligations	<u>1,746,435</u>
Noncurrent liabilities	<u>23,682,799</u>
Total liabilities	<u>31,949,599</u>

NET ASSETS

Investment in capital assets, net of related debt	16,041,714
Restricted for:	
Capital reserves	1,290,841
Lunch program	7,524
Other nonmajor purposes	343,852
Unrestricted	<u>(4,856,825)</u>
Total net assets	<u>\$ 12,827,106</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, 2009

Functions / Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and
				Changes in Net
				Assets
				Primary Government
				Governmental
				Activities
Governmental activities:				
Instruction				
Regular instruction	\$ 13,128,601	\$ 49,690	\$ 411,620	\$ (12,667,291)
Special education instruction	5,477,178	102,861	768,913	(4,605,404)
Other instruction	2,056,097	-	-	(2,056,097)
Support services				
Student support services	1,209,985	-	-	(1,209,985)
Instructional staff services	606,094	-	-	(606,094)
General administration	250,734	-	-	(250,734)
Executive administration	1,004,004	-	-	(1,004,004)
School administrative services	1,553,764	-	-	(1,553,764)
Operation and maintenance	2,679,807	-	-	(2,679,807)
Student transportation	2,190,046	-	-	(2,190,046)
Food service program	781,179	499,659	123,537	(157,983)
Interest expense	1,371,707	-	-	(1,371,707)
Capital outlay	135,396	-	-	(135,396)
Other financing uses/nonoperating	14,623	-	-	(14,623)
Depreciation (unallocated)	1,600,990	-	-	(1,600,990)
Total governmental activities	34,060,205	652,210	1,304,070	(32,103,925)

General revenues:

School district assessment	\$ 20,267,633
Grants and contributions not restricted to specific purposes:	
Local sources	287,963
State of New Hampshire sources	11,528,864
Federal sources	189,994
Investment income	<u>52,763</u>
Total general revenues	<u>32,327,217</u>
Change in net assets	223,292
Net assets - beginning	<u>12,603,814</u>
Net assets - ending	<u>\$ 12,827,106</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, 2009

	General	Food	Capital	Other	Nonmajor	Total
	Fund	Service	Reserves	Grants	Governmental	Governmental
Assets		Fund			Funds	Funds
Cash and cash equivalents	\$ 889,284	\$ 2,782	\$ -	\$ -	\$ 10,949	\$ 903,015
Investments	1,219,514	350,456	-	-	171,486	1,741,456
Other receivable	2,842	-	-	-	-	2,842
Receivables, net	7,407	1,510	-	133,552	-	142,469
Due from other governments	314,444	10,812	1,290,841	-	18,611	1,634,708
Due from other funds	-	-	-	416,957	20,431	437,388
Inventories	58,296	7,524	-	-	-	65,820
Total assets	<u>\$ 2,491,787</u>	<u>\$ 373,084</u>	<u>\$ 1,290,841</u>	<u>\$ 550,509</u>	<u>\$ 221,477</u>	<u>\$ 4,927,698</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 217,650	\$ 827	\$ -	\$ 579	\$ 143	\$ 219,199
Accrued expenses	1,150,923	9,182	-	-	31,244	1,191,349
Due to other funds	10,634	348,260	-	-	78,494	437,388
Deferred revenue	-	7,291	-	310,019	7,655	324,965
Total liabilities	<u>1,379,207</u>	<u>365,560</u>	<u>-</u>	<u>310,598</u>	<u>117,536</u>	<u>2,172,901</u>
Fund balances:						
Reserved for:						
Encumbrances	272,399	-	-	239,911	-	512,310
Inventories	58,296	7,524	-	-	-	65,820
Designated	50,000	-	-	-	-	50,000
Unreserved	731,885	-	1,290,841	-	-	2,022,726
Unreserved, reported in nonmajor:						
Capital project funds	-	-	-	-	103,941	103,941
Total fund balances	<u>1,112,580</u>	<u>7,524</u>	<u>1,290,841</u>	<u>239,911</u>	<u>103,941</u>	<u>2,754,797</u>
Total liabilities and fund balances	<u>\$ 2,491,787</u>	<u>\$ 373,084</u>	<u>\$ 1,290,841</u>	<u>\$ 550,509</u>	<u>\$ 221,477</u>	<u>\$ 4,927,698</u>

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

KEARSARGE REGIONAL SCHOOL DISTRICT

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets June 30, 2009

Total Fund Balances - Governmental Funds \$ 2,754,797

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	\$ 51,862,734	
Less accumulated depreciation	<u>(11,576,339)</u>	40,286,395

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	\$ (24,216,841)	
Unamortized bond premium	(344,334)	
Capital leases	(27,840)	
Compensated absences	(10,449)	
Early retirement obligations	(1,442,240)	
Early retirement health	<u>(1,001,653)</u>	(27,043,357)

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.

(3,170,729)

Total Net Assets - Governmental Activities \$ 12,827,106

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, 2009

	General Fund	Food Service Fund	Capital Reserves	Other Grants	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
School district assessment	\$ 20,267,633	\$ -	\$ -	\$ -	\$ -	\$ 20,267,633
Local sources	243,681	503,381	-	146,318	46,793	940,173
State of New Hampshire sources	11,905,456	5,851	-	-	-	11,911,307
Federal sources	189,994	152,714	-	-	768,913	1,111,621
Investment income	32,429	2,068	15,496	-	2,770	52,763
Total revenues	<u>32,639,193</u>	<u>664,014</u>	<u>15,496</u>	<u>146,318</u>	<u>818,476</u>	<u>34,283,497</u>
Expenditures						
Current:						
Instruction	19,703,293	-	-	469,145	768,913	20,941,351
Support services	1,816,079	-	-	-	-	1,816,079
General administration	250,734	-	-	-	-	250,734
Executive administration	7,514,433	-	-	-	-	7,514,433
Food service program	-	781,179	-	-	-	781,179
Debt service:						
Principal	2,646,569	-	-	-	-	2,646,569
Interest	388,620	-	-	-	-	388,620
Capital outlay	-	-	-	-	135,396	135,396
Total expenditures	<u>32,319,728</u>	<u>781,179</u>	<u>-</u>	<u>469,145</u>	<u>904,309</u>	<u>34,474,361</u>
Excess (deficiency) of revenues over expenditures	319,465	(117,165)	15,496	(322,827)	(85,833)	(190,864)
Other Financing Sources (Uses)						
Loan proceeds	216,669	-	-	-	-	216,669
Transfers in	420,293	112,605	125,000	482,000	-	1,139,898
Transfers out	(719,605)	-	-	(23,293)	(397,000)	(1,139,898)
Net change in fund balances	236,822	(4,560)	140,496	135,880	(482,833)	25,805
Fund balances - beginning of year	<u>875,758</u>	<u>12,084</u>	<u>1,150,345</u>	<u>104,031</u>	<u>586,774</u>	<u>2,728,992</u>
Fund balances - end of year	<u>\$ 1,112,580</u>	<u>\$ 7,524</u>	<u>\$ 1,290,841</u>	<u>\$ 239,911</u>	<u>\$ 103,941</u>	<u>\$ 2,754,797</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, 2009

Total Net Change in Fund Balances - Governmental Funds \$ 25,805

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	\$ 323,706	
Depreciation expense	(1,600,990)	
Loss on disposal of assets	<u>(14,623)</u>	(1,291,907)

Loan proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net assets. (216,669)

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	2,686,974	
Amortization of bond premiums	33,276	
Principal on capital leases	<u>210,332</u>	2,930,582

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 (1,056,768)

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	(851)	
Early retirement and health (increase) decrease	<u>(166,900)</u>	<u>(167,751)</u>

Change in Net Assets of Governmental Activities \$ 223,292

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

KEARSARGE REGIONAL SCHOOL DISTRICT

Statement of Net Assets Fiduciary Funds June 30, 2009

	<u>Student Activities</u>	<u>Total Fiduciary Funds</u>
Assets		
Cash and cash equivalents	\$ 128,953	\$ 128,953
Total assets	<u>128,953</u>	<u>128,953</u>
Liabilities		
Due to student groups	<u>128,953</u>	<u>128,953</u>
Total liabilities	<u>\$ 128,953</u>	<u>\$ 128,953</u>
Net Assets		
Held in trust for private purposes	<u>-</u>	<u>-</u>
Total net assets	<u>\$ -</u>	<u>\$ -</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

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 independency 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, 2009

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.

KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2009

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.

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, 2009, the District had not exceeded its legal debt limit of approximately \$319,400,000 on \$3,194,000,000 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

Notes to Basic Financial Statements
June 30, 2009

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, 2009, 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 \$1,112,580 fund balance in the General Fund is subject to encumbered obligations in the amount of \$272,399, amounts reserved for inventories in the amount of \$58,296 and voter approved appropriations of year end fund balance in the amount of \$50,000. The year end unreserved undesignated fund balance is \$731,885.

Food Service

The Food Service Fund received an operating transfer subsidy from the General Fund in the amount of \$112,605. The year end reserved fund balance of \$7,524 is for inventories and the unreserved undesignated fund balance is zero.

KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements June 30, 2009

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and equivalents	\$ 903,015
Investments	1,741,456
Fiduciary funds:	
Cash and investments	128,953
	<u>\$ 2,773,424</u>

Deposits and investments as of June 30, 2009 consist of the following:

Cash on hand	\$ -
Deposits with financial institutions	1,031,968
Investments	1,741,456
	<u>\$ 2,773,424</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, 2009

Investments made by the District as of June 30, 2009 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	1,741,456	Not Rated	
Repurchase agreements	-		
	<u>\$ 1,741,456</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				
FNMA	\$ 3,198,291	\$ -	\$ -	\$ 3,198,291
Fannie Mae Pool #755501	\$ 64,039	\$ -	\$ -	\$ 64,039
FHLB Callable Bond	\$ 1,687,250	\$ -	\$ 1,687,250	\$ -
FHLMC ARM	\$ 57,916	\$ -	\$ -	\$ 57,916

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, 2009, \$396,219 of the District's \$1,841,482 bank balance was covered by deposit insurance and \$1,445,263 was covered by pledged collateral held in the District's name. 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, 2009

NOTE 4 - INTERFUND BALANCES AND TRANSFERS

Individual interfund balances, resulting primarily from utilization of centralized general fund cash accounts, at June 30, 2009 consisted of the following:

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
General fund	\$ -	\$ 10,634
Other grants fund	416,957	-
Food service fund	-	348,260
Nonmajor Funds:		
Grants fund	20,431	-
Roof bond	-	59,808
High school addition	-	7,737
Middle school fund	-	10,949
	<u>\$ 437,388</u>	<u>\$ 437,388</u>

Individual interfund transfers, resulting from routine transfers during the year based upon statutory or budgetary authorization, for the year ended June 30, 2009 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General fund	\$ 420,293	\$ 719,605
Food service fund	112,605	-
Capital reserves	125,000	-
Other grants	482,000	23,293
Nonmajor Funds:		
Middle school	-	397,000
	<u>\$ 1,139,898</u>	<u>\$ 1,139,898</u>

KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2009

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2009 consisted of the following:

	General Fund	Grants Fund	Capital Reserves	Food Service Fund
Local Governments				
Other School Districts	\$ -	\$ -	\$ -	\$ -
Town of Warner	209,970	-	-	-
Town of New London - Trustees	-	-	1,290,841	-
Other	9,253	-	-	-
State Governments				
New Hampshire - Medicaid	66,869	-	-	-
State of Vermont	28,352	-	-	-
Federal / State Government				
Pass-through grants and other	-	18,611	-	-
Food program reimbursements	-	-	-	10,812
	<u>\$ 314,444</u>	<u>\$ 18,611</u>	<u>\$ 1,290,841</u>	<u>\$ 10,812</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 other Major Funds. The District capital reserve funds are due from the Town of New London - Trustees; the statutory custodian.

The District capital reserve funds as authorized by voters at an annual meeting that are being held by the Trustees of Trust Funds, Town of New London consisted of the following as of June 30, 2009:

- "Reconstructing or Adding to Existing Schools of the District" - Expendable Trust Fund - Established March 1994 - Amended March 1997 to name School Board Agents to expend, with a balance of \$170,305.
- "Replacement and Major Repair to Roofs in the District" - Expendable Trust Fund - Established March 2000. Roof replacement must take place over the next 2 to 5 years at an approximate total cost of \$875,000. School Board not named agents to expend, with a balance of \$678,698.
- "Emergency Funding of Unforeseen Special Education Out-of-District Placement Tuition" - Expendable Trust Fund - Established March 1997 - School Board agents to expend, with a balance of \$366,270.
- "Emergency Funding of Unanticipated Special Education Costs" - Expendable Trust Fund - Established March 2008 - School Board agents to expend, with a balance of \$75,569.

KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2009

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District for the year ended June 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities (at cost)				
Capital assets not being depreciated:				
Land and improvements	\$ 506,810	\$ -	\$ -	\$ 506,810
	<u>506,810</u>	<u>-</u>	<u>-</u>	<u>506,810</u>
Capital assets being depreciated:				
Land improvements	293,298	-	-	293,298
Buildings	44,676,292	-	-	44,676,292
Vehicles	39,848	-	-	39,848
Furniture and equipment	3,191,168	86,813	-	3,277,981
Technology equipment	2,892,308	236,893	60,696	3,068,505
	<u>51,092,914</u>	<u>323,706</u>	<u>60,696</u>	<u>51,355,924</u>
Less accumulated depreciation:				
Land improvements	182,129	7,942	-	190,071
Buildings	6,861,755	950,597	-	7,812,352
Vehicles	7,970	7,970	-	15,940
Furniture and equipment	1,421,123	171,547	-	1,592,670
Technology equipment	1,548,445	462,934	46,073	1,965,306
Accumulated depreciation	<u>10,021,422</u>	<u>1,600,990</u>	<u>46,073</u>	<u>11,576,339</u>
Capital assets being depreciated, net	<u>41,071,492</u>	<u>(1,277,284)</u>	<u>14,623</u>	<u>39,779,585</u>
Governmental activities capital assets, Net of accumulated depreciation	<u>\$ 41,578,302</u>	<u>\$ (1,277,284)</u>	<u>\$ 14,623</u>	<u>\$ 40,286,395</u>
Depreciation expense for the year ended June 30, 2009 (unallocated)				<u>\$ 1,600,990</u>

KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2009

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, 2009 is as follows:

	General Obligation Bonds	Bond Premiums	Capital Leases	Compensated Absences	Total
Beginning balance	\$ 26,687,146	\$ 377,610	\$ 238,172	\$ 9,598	\$ 27,312,526
Additions	216,669	-	-	851	217,520
Reductions	(2,686,974)	(33,276)	(210,332)	-	(2,930,582)
Ending balance	<u>24,216,841</u>	<u>344,334</u>	<u>27,840</u>	<u>10,449</u>	<u>24,599,464</u>
Current portion	2,623,604	33,277	6,219	-	2,663,100
Noncurrent portion	<u>21,593,237</u>	<u>311,057</u>	<u>21,621</u>	<u>10,449</u>	<u>21,936,364</u>
	<u>\$ 24,216,841</u>	<u>\$ 344,334</u>	<u>\$ 27,840</u>	<u>\$ 10,449</u>	<u>\$ 24,599,464</u>

Long-term liabilities outstanding at June 30, 2009 consisted of the following:

	Issue Year	Interest Rate	Maturity Date	Issue Amount Net (Discount) Premium	Amount Outstanding 6/30/09
<u>General Obligation Bonds</u>					
Middle School	2006	4.00-5.00	2026	\$ 24,719,000	\$ 20,311,539
High School Addition	1996	5.62-5.75	2011	6,838,167	2,095,925
High School Addition	2004	3.00-5.00	2014	3,259,044	1,373,113
High School Roof	2002	3.00-4.00	2012	667,500	260,000
Computer equipment	2009	3.5	2013	216,669	176,264
					<u>24,216,841</u>
<u>Capital Lease Obligations</u>					
Technology equipment	2007	7.55	2012	43,999	27,840
					<u>27,840</u>
<u>Other Long-Term Obligations</u>					
Compensated absences					10,449
Bond premiums					344,334
					<u>\$ 24,599,464</u>

KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements June 30, 2009

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 2,623,604	\$ 454,820	\$ 3,078,424
2011	2,568,291	484,857	3,053,148
2012	2,519,650	548,067	3,067,717
2013	1,790,679	607,235	2,397,914
2014	1,598,398	679,225	2,277,623
After	<u>13,116,219</u>	<u>11,863,874</u>	<u>24,980,093</u>
	<u><u>\$ 24,216,841</u></u>	<u><u>\$ 14,638,078</u></u>	<u><u>\$ 38,854,919</u></u>

Obligations under capital lease are as follows:

2010	\$ 8,322
2011	8,322
2012	8,322
2013	8,322
2014	-
After	<u>-</u>
Total minimum lease payments	33,288
Less amount representing imputed interest	<u>5,448</u>
Present value of minimum lease payments	<u><u>\$ 27,840</u></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, 2009 is as follows:

	<u>Early Retirement Payments</u>	<u>Early Retirement Healthcare</u>	<u>Total</u>
Beginning balance	\$ 1,526,048	\$ 750,945	\$ 2,276,993
Additions	332,371	250,708	583,079
Reductions	<u>(416,179)</u>	<u>-</u>	<u>(416,179)</u>
Ending balance	<u><u>1,442,240</u></u>	<u><u>1,001,653</u></u>	<u><u>2,443,893</u></u>
Current portion	423,886	273,572	697,458
Noncurrent portion	<u>1,018,354</u>	<u>728,081</u>	<u>1,746,435</u>
	<u><u>\$ 1,442,240</u></u>	<u><u>\$ 1,001,653</u></u>	<u><u>\$ 2,443,893</u></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, 2009 were 5.80% and 8.74% 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, 2009, 2008, and 2007 were \$891,049, \$820,528, and \$504,766, 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, 2009 on-behalf fringe benefit payments were made by the State of New Hampshire for District in the amount of \$376,592.

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 - OTHER POST-EMPLOYMENT BENEFITS ("OPEB's") - GASB 45

GASB No. 47 OPEBS - The Kearsarge Regional School District (a single district School Administrative Unit, SAU#65) provides OPEB benefits to certain retired teachers that take advantage of early retirement incentives. These benefits are explicit benefits and have been accounted for under GASB No. 47.

GASB 45, or GASB Statement 45, is an accounting and financial reporting provision requiring government employers to measure and report the liabilities associated with other (than pension) postemployment benefits (or OPEB). There are two types of OPEB:

The first and most common OPEB is referred to as Explicit OPEB. This may include employer paid post-retirement medical, pharmacy, dental, vision, life, long-term disability and long-term care benefits that are not associated with a pension plan.

The second type of OPEB is referred to as Implicit OPEB. Implicit or implied OPEB exists when an entity provides access to post-retirement medical, pharmacy, dental, vision, life, long-term disability and long-term care benefits through its current benefit structure without having separate rates for active and retired employees. In this case, the premiums are considered to be blended premiums requiring the determination of the implicit rate subsidy.

This report focuses on GASB No. 45 benefits that are provided to retirees as implicit benefits. Government employers required to comply with GASB No. 45 include all states, towns, education boards, water districts, mosquito districts, public schools and all other government entities that offer OPEB and report under GASB. GASB No. 45 requires Kearsarge Regional School District to implement GASB No. 45 for the fiscal year ending June 30, 2009.

1. Brief Description of the OPEB - Retiree Medical Plan

Benefits

Benefits provided to retirees follow New Hampshire Statute 100-A:50 (Medical Insurance Coverage). This statute states that the school district "shall permit its employees upon retirement to continue to participate in the same medical insurance or health care group or plan as its active employees. Retired employees shall be deemed to be part of the same group as active employees of the same employer for purposes of determining medical insurance premiums. Coverage for spouses, other family members and beneficiaries of retirees shall also be permitted to the extent that coverage is provided for the spouses, other family members and beneficiaries of active employees..." In addition, the statute states "Each political subdivision, as employer, may elect to pay the full cost of group medical insurance or health care coverage for its retirees, or may require each retiree to pay any part or all of the cost of the retiree's participation."

Plan Types

The school district provides medical benefits to its eligible retirees. The benefits are provided through fully insured plans that are sponsored by a regional health insurance consortium known as The New Hampshire School Health Care Coalition ("SchoolCare").

Eligibility

Employees are required to have a minimum of 5 years of service to the district and be at least 55 years of age to qualify for benefits (which are limited to those classified as teachers, nurses and SAU).

KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2009

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS ("OPEB's") - GASB 45

Benefit Cost Sharing - 100% Retiree

Retiree and Spouse / Dependent(s): Retirees are required to pay 100% of the cost for coverage. The largest portion of the monthly premium for each Retiree is billed directly by SchoolCare to the New Hampshire Retirement System ("NHRS"). The Retiree's are directly billed by SchoolCare for any amount not covered by the NHRS subsidy.

Surviving Spouse Benefit

The spouse is required to pay 100% of the cost of the benefits following the death of the retired employee.

Annual Medical Premiums for Retirees

The monthly health insurance premiums for Retirees is the same as those for Active Employees; i.e., a "blended rate" for purposes of GASB No. 45.

<u>Health Plan Option</u>	<u>Single</u>	<u>Family</u>
HMO	\$ 5,856	\$ 11,712
Open Access POS	\$ 6,558	\$ 13,116

New Hampshire Retirement System's (NHRS) Subsidy

The monthly health insurance "subsidy" for premiums for Retirees billed to / paid by the NHRS is the same regardless of health insurance plan chosen.

<u>Age Ranges</u>	<u>Single</u>	<u>Family</u>
Pre-65	\$ 4,507	\$ 9,013
65+	\$ 2,842	\$ 5,684

Implicit Rate Subsidy – Pre 65 Retirees

The coalition offers the same plans to Pre-65 Retirees and Active Employees at the same "blended premium." For GASB No. 45 purposes, an age weighted adjustment has been calculated to determine the "implicit benefits" to Pre-65 Retirees. The premiums charged to the 65+ Retirees is "not blended;" and there is no implicit rate subsidy and they are excluded from the OPEB.

The age adjusted premiums and implicit subsidy amounts used in this valuation are:

<u>Age Adjusted Premiums</u>	<u>Single</u>	<u>Family</u>
HMO	\$ 9,511	\$ 19,022
Open Access POS	\$ 10,651	\$ 21,302
<u>Implicit Rate Subsidy</u>	<u>Single</u>	<u>Family</u>
HMO	\$ 3,655	\$ 7,310
Open Access POS	\$ 4,093	\$ 8,186

KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2009

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS ("OPEB's") - GASB 45

2. GASB 45 Disclosure Requirements – Estimated Plan Results for GASB No. 45

A - Annual OPEB Cost and Net OPEB Obligation

Normal Cost	\$ 105,431
Amortization Cost	\$ 138,779
Interest	<u>\$ 4,836</u>
Annual Required Contribution (ARC)	\$ 249,046
Interest on Net OPEB Obligation	\$ -
Adjustment to ARC (if Applicable)	<u>\$ -</u>
Annual OPEB Cost (Expense) - Fiscal Year 6/30/2009	\$ 249,046
Contributions Made - Active Employees Premium Subsidy Paid	\$ 249,046
Percentage of Annual OPEB Cost Contributed	100.0%
Increase (Decrease) in Net OPEB Obligation	\$ -
Net OPEB Obligation - July 1, 2008	\$ -
Net OPEB Obligation - June 30, 2009	\$ -

B - Funding Status and Funding Progress

Actuarial Value of Assets - 7/1/2008	\$ -
Actuarial Accrued Liability (AAL)	\$ 2,495,754
Unfunded AAL (UALL)	\$ 2,495,754
Funded Ratio of Covered Payroll	N/A
UAAL as a Percentage of Covered Payroll	N/A
Actuarial Valuation Date	7/1/2008

C - Methods and Assumptions

Census Collection Date	7/1/2008
Discount Rate	4.0%
Medical Trend Rate - 6/30/2009	10.0%
Ultimate Trend Rate	5.0%
Fiscal Year Ultimate Trend Rate Reached	6/30/2014
Remaining Amortization Period - 6/30/2009	29 Years
Actuarial Cost Method - Projected Unit Cost	PUC

REQUIRED SUPPLEMENTARY INFORMATION

KEARSARGE REGIONAL SCHOOL DISTRICT

Budgetary Comparison Schedule - General Fund Year Ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance
Budgetary Fund Balance - Beginning	\$ 684,975	\$ 799,474	\$ 875,758	\$ 76,284
Resources (inflows):				
School district assessment				
Local school tax	20,267,622	20,267,622	20,267,633	11
Local sources				
Tuition	100,000	100,000	145,385	45,385
Transportation fees	-	-	7,166	7,166
Earnings on investments	25,000	25,000	32,429	7,429
Other	10,000	10,000	91,130	81,130
State of New Hampshire sources				
School building aid	1,605,225	1,605,225	1,553,583	(51,642)
Catastrophic aid	373,000	373,000	401,868	28,868
Vocational aid	5,000	5,000	9,701	4,701
Adult education	8,000	8,000	-	(8,000)
Adequacy grant	2,775,407	2,775,407	2,775,406	(1)
State education tax	6,788,306	6,788,306	6,788,306	-
Federal sources				
Medicaid distribution	100,000	100,000	189,994	89,994
Operating transfers in				
Special revenue funds	-	-	23,293	23,293
Capital project funds	397,000	397,000	397,000	-
Other financing sources				
Loan proceeds	-	-	216,669	216,669
Amounts available for appropriation	<u>33,139,535</u>	<u>33,254,034</u>	<u>33,775,321</u>	<u>521,287</u>
Charges to appropriations (outflows):				
Instruction				
Regular instruction	13,371,402	13,415,002	13,408,076	6,926
Special education instruction	5,542,995	5,543,013	5,477,178	65,835
Other instruction	371,036	371,036	439,014	(67,978)
Adult and community programs	26,199	26,199	2,433	23,766
Support services				
Student support services	1,231,949	1,231,949	1,209,985	21,964
Instructional staff services	733,752	743,110	606,094	137,016
General administration				
Other school board	162,171	189,350	250,734	(61,384)
Executive administration				
SAU management services	1,036,134	1,057,134	1,004,004	53,130
School administrative services	1,543,599	1,546,313	1,553,764	(7,451)
Operation and maintenance	3,015,670	3,026,300	2,766,619	259,681
Student transportation	2,313,112	2,313,112	2,190,046	123,066
Debt service				
Debt service principal	2,646,569	2,646,569	2,646,569	-
Debt service interest	388,620	388,620	388,620	-
Operating transfers out				
Special revenue funds	<u>756,327</u>	<u>756,327</u>	<u>719,605</u>	<u>36,722</u>
Total charges to appropriations	<u>33,139,535</u>	<u>33,254,034</u>	<u>32,662,741</u>	<u>591,293</u>
Budgetary Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,112,580</u>	<u>\$ 1,112,580</u>

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Required Supplementary Information
June 30, 2009

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 for the General Fund in the amount of \$33,139,535 consists of the voted appropriation of \$35,210,535 less \$799,327 for the Food Service Fund, \$756,000 for Other Special Revenue Funds, and a \$665,000 supplemental appropriation, plus a \$149,327 budgeted subsidy to the food service 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 \$114,499 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, 2009

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>
Sources / Inflows of Resources: Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 33,775,321
Differences - Budget to GAAP:	
Budgetary inflows that are not revenues for financial reporting purposes	
Beginning fund balance	(875,758)
Transfers from other funds	(420,293)
Loan proceeds	(216,669)
Teacher retirement on-behalf payments by the State of New Hampshire	<u>376,592</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 32,639,193</u>
Uses / Outflows of Resources: Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 32,662,741
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	376,592
Transfers to other funds	<u>(719,605)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 32,319,728</u>

OTHER SUPPLEMENTARY INFORMATION

KEARSARGE REGIONAL SCHOOL DISTRICT

Combining Balance Sheet - Nonmajor Governmental Funds June 30, 2009

	Grants Fund	Roof Bond	High School Addition	Middle School	Total Nonmajor Governmental Funds
Assets					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 10,949	\$ 10,949
Investments	-	149,795	21,691	-	171,486
Due from other governments	18,611	-	-	-	18,611
Due from other funds	20,431	-	-	-	20,431
Total assets	<u>\$ 39,042</u>	<u>\$ 149,795</u>	<u>\$ 21,691</u>	<u>\$ 10,949</u>	<u>\$ 221,477</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 143	\$ -	\$ -	\$ -	\$ 143
Accrued expenses	31,244	-	-	-	31,244
Due to other funds	-	59,808	7,737	10,949	78,494
Deferred revenue	7,655	-	-	-	7,655
Total liabilities	<u>39,042</u>	<u>59,808</u>	<u>7,737</u>	<u>10,949</u>	<u>117,536</u>
Fund balances:					
Unreserved	-	89,987	13,954	-	103,941
Total fund balances	<u>-</u>	<u>89,987</u>	<u>13,954</u>	<u>-</u>	<u>103,941</u>
Total liabilities and fund balances	<u>\$ 39,042</u>	<u>\$ 149,795</u>	<u>\$ 21,691</u>	<u>\$ 10,949</u>	<u>\$ 221,477</u>

KEARSARGE REGIONAL SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2009

	Grants Fund	Roof Bond	High School Addition	Middle School	Total Nonmajor Governmental Funds
Revenues					
Local sources	\$ -	\$ 1,622	\$ 235	\$ 47,706	\$ 49,563
Federal sources	<u>768,913</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>768,913</u>
Total revenues and other financing sources	<u>768,913</u>	<u>1,622</u>	<u>235</u>	<u>47,706</u>	<u>818,476</u>
Expenditures					
Instruction	768,913	-	-	-	768,913
Capital outlay	-	-	-	135,396	135,396
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>397,000</u>	<u>397,000</u>
Total expenditures and other financing uses	<u>768,913</u>	<u>-</u>	<u>-</u>	<u>532,396</u>	<u>1,301,309</u>
Excess revenue and other financing sources over (under) expenditures and other financing uses	-	1,622	235	(484,690)	(482,833)
Fund balances - beginning of year	<u>-</u>	<u>88,365</u>	<u>13,719</u>	<u>484,690</u>	<u>586,774</u>
Fund balances - end of year	<u>\$ -</u>	<u>\$ 89,987</u>	<u>\$ 13,954</u>	<u>\$ -</u>	<u>\$ 103,941</u>

FEDERAL AWARDS SUPPLEMENTARY INFORMATION

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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, 2009, which collectively comprise the Kearsarge Regional School District's basic financial statements and have issued our report thereon dated December 10, 2009. 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 - 2009-1 and 2009-2

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. We believe that none of the significant deficiencies described above is a material weakness.

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

December 10, 2009

GRZELAK AND COMPANY, P.C.

Certified Public Accountants

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

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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, 2009. 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, 2009.

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.

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 items 2009-1 and 2009-2 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. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs 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
December 10, 2009

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

KEARSARGE REGIONAL SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards Year Ended June 30, 2009

Federal Grantor / Pass-Through Grantor Program or Cluster Title	Federal CFDA #	Pass Through ID #	Expenditures of Federal Awards
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the NH Surplus Distribution Section			
Food Donation	10.550		\$ 31,682
Passed through the NH Department of Education			
CHILD NUTRITION CLUSTER			
School Breakfast Program	10.553		21,525
National School Lunch Program	10.555		94,795
School Milk Program for Children	10.556		1,359
			<u>117,679</u>
			<u>149,361</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through the NH Department of Education			
SPECIAL EDUCATION CLUSTER			
Special Education - Grants to States	84.027	92575	415,211
Special Education - Preschool Grants (IDEA Preschool)	84.173	82786	1,230
Special Education - Preschool Grants (IDEA Preschool)	84.173	92765	10,166
			<u>426,607</u>
Adult Education - State Grant Program	84.002	97315	11,798
Adult Education - State Grant Program	84.002	97613	34,786
Title I, Grants to Local Educational Agencies (LEAs)	84.010	80069	172,692
Title I, Grants to Local Educational Agencies (LEAs)	84.010	90077	7,070
Safe and Drug-Free Schools and Communities State Grants	84.186	96577	8,879
Education Technology State Grants	84.318	94497	9,201
Improving Teacher Quality State Grants	84.367	94865	96,992
Improving Teacher Quality State Grants	84.367	94965	888
			<u>342,306</u>
			<u>768,913</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 918,274</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, 2009

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, 2009.

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, 2009 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:

Schedule of Expenditures of Federal Awards	\$ 918,274
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Government Funds	
Major Fund	
Grants Fund - Federal sources	\$ 768,913
Other Governmental Funds	
Food Service Fund - Federal sources	149,361
	<u>\$ 918,274</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, 2009

- 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 2009-1 and 2009-2 were reported as significant deficiencies in which none were 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 finding 2009-1 related to major federal award programs and was reported as a significant deficiency; but was not considered a material weakness.
- 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):
 - Significant Deficiency in Internal Control over Major Programs – Financial statement finding 2009-1.
 - 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
 - CDFA # 84.367 - Improving Teacher Quality State 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, 2009

SIGNIFICANT DEFICIENCIES

2009-1 Inadequate Documentation of the Components of Internal Control Including Risk Assessment, Anti-Fraud Programs and Monitoring

CONDITIONS AND CRITERIA: The District does not maintain adequate documentation of the components of internal control, including risk assessment, anti-fraud programs and monitoring. Internal control framework and its interpretive guidance (promulgated by SAS 112 - AICPA / Auditing Standards Board, 2006 and by the Government Accountability Office - GAO Yellow Book, 2007 and OMB Circular A-133 Compliance Supplement, 2008), 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 approval and adoption of managements' internal control policies; it must therefore ensure that management has been both charged responsibility and the resources to establish and maintain the components of internal controls.

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 there "magnitude" and "likelihood," could constitute a "significant deficiency."

CAUSE: Understanding the components of internal control is required in order to establish and maintain the internal control system within the integrated framework. Prior to the implementation of SAS 112, and the related incorporation of such new professional language by the GAO into the GAO Yellow Book and by the OMB into the annual Compliance Supplement between 2006 and 2008, this internal control framework was not clearly established in professional standards or regulatory standards and compliance requirements.

RECOMMENDATION: Management, after already participated in professional training to understand the components of internal control per the integrated framework, must now work towards documenting such components and fully resolve the control deficiency noted.

2009-2 Inadequate Controls Over Decentralized Activities and Systems

CONDITION AND CRITERIA: The District did not maintain adequate control over decentralized school building food service sales recognition and recording during the period. An adequate internal control framework requires that controls be in place over decentralized activities and systems.

EFFECT: The internal control procedures for food service sales transaction class revenues are not adequately developed to address the nature of decentralized cash receipts activities.

CAUSE: In addition to the matters discussed in the cause of finding 2009-1, changes in food service supervisory personnel, and the procurement and stage-level implementation of new food service management software and point of sale information processing, have yet to achieve a level of control objective either at the de-centralized level or the integrated centralized business office level

RECOMMENDATION: In addition to the matters discussed in the recommendation of finding 2009-1, management must complete the implementation of the food service management software and point of sale information processing at both the decentralized and central business office level.

KEARSARGE REGIONAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs 3 - Federal Awards June 30, 2009

SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESS

FEDERAL AWARDS: The significant deficiency identified as 2009-1 in the "financial statement findings" section of the Schedule of Findings and Questioned Costs applied to federal awards and was not identified as a "material weakness."

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

KEARSARGE REGIONAL SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings
June 30, 2009

DEPARTMENT OF EDUCATION

FINDING 2008-1 **Inadequate Documentation of the Components of Internal Control Including Risk Assessment, Anti-Fraud Programs and Monitoring**

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

Current Status: Corrective action is "in process." The District understands and is aware of the "Components of Internal Control - Integrated Framework (COSO)" and developing the documentation of such components.

FINDING 2008-2 **Maintaining the General and Subsidiary Ledgers and Financial Reporting**

Condition: Adequate control over the design of the general and subsidiary ledgers (in the capital asset account balance and receivables/revenues account balance and transaction class) 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, 2008.

Current Status: Corrective action taken.

FINDING 2008-3 **Inadequate Controls Over Decentralized Activities and Systems**

Condition: The District does not maintain adequate control over decentralized school building food service sales recognition and recording.

Current Status: Corrective action is "in process." The District has purchased food service program management software; which includes point of sale and related features identified in the finding. The full implementation is planned for the fiscal year July 1, 2009 to June 30, 2010.

MANAGEMENT VIEWS AND CORRECTIVE ACTION PLAN

Jerome E. Frew, MEd
Superintendent

Robin Steiner, MAT
Assistant Superintendent

Lawrence Elliott, MEd
Director of Student Support Services



Lawrence LeBoeuf, BS
Business Administrator

Marge Geba, BS
Assistant Business Administrator

Chrys Beavrie, EdD
Director of Technology

CORRECTIVE ACTION PLAN

NH Department of Education:

The Kearsarge Regional School District respectfully submits the following corrective action plan for the year ended June 30, 2009. The findings from the June 30, 2009 schedule of findings and questioned costs are discussed below.

SIGNIFICANT DEFICIENCIES

2009-1 Inadequate Documentation of the Components of Internal Control

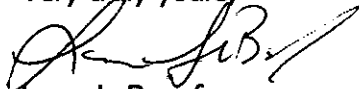
We concur with the recommendation. The District has participated in professional training to understand the components of internal control as outlined by the integrated framework COSO (the "Components of Internal Control"). The corrective action is "in process." The District is working towards documenting the components for implementation in the July 1, 2010 to June 30, 2011 timeframe.

SIGNIFICANT DEFICIENCIES

2009 - 2 Inadequate Controls Over Decentralized Activities and Systems

We concur with the recommendation. The District has changed its food service program management software and point of sales hardware. The District has offered parents and staff the opportunity to purchase students meals online. The Corrective action is "in process." The full implementation is planned for the fiscal year July 1, 2009 to June 30, 2010.

Very truly yours,



Larry LeBoeuf
Business Administrator

CC: Jerry Frew, Superintendent