

**KEARSARGE REGIONAL SCHOOL DISTRICT**

New London, New Hampshire

FINANCIAL STATEMENTS

June 30, 2014

# KEARSARGE REGIONAL SCHOOL DISTRICT

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## **INDEPENDENT AUDITOR'S REPORT**

# GRZELAK AND COMPANY, P.C.

## Certified Public Accountants

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Member – AICPA Private Company Practice Section (PCPS)  
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### INDEPENDENT AUDITOR'S REPORT

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

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kearsarge Regional School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Kearsarge Regional School District's basic financial statements as listed in the table of contents.

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

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

#### Auditor's Responsibility

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

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

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

#### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Kearsarge Regional School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress for other postemployment benefits on pages 7 through 22 and 53 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 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.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kearsarge Regional School District's internal control over financial reporting and compliance.

*Grzelak and Co., P.C.*

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

Laconia, New Hampshire  
November 10, 2014

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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The Superintendent of Schools and the Business Manager, as "management" of the Kearsarge Regional School District (the "District"), a K-12 local education authority located in the County of Merrimack, New Hampshire, submits this section of the District's annual financial report in order to present our discussion and analysis of the District's financial performance during the year ended June 30, 2014.

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, 2014. Please read it in conjunction with the financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

The District's total combined net position, which increased between June 30, 2013 and 2014 by \$1,151,842 or 6% to \$20,628,543.

Net position consisted of: \$24,509,872 net investment in capital assets; \$1,711,259 restricted for capital reserves, \$12,068 restricted for the lunch program and \$104,944 for other nonmajor funds for the purposes of each established fund; and, an unrestricted negative balance of (\$5,709,600). 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 \$1,305,703 net OPEB obligation under the provision of (GASB) Statement 45 and \$905,318 long-term liability for early retiree's payments (\$493,188) and related healthcare (\$412,130) under the provisions of Governmental Accounting Standards Board (GASB) Statement 47.

The District's total revenues, consisting of general revenues, charges for services and operating grants and contributions were \$37,085,302. The amount that was paid by taxpayers through property taxes was \$30,590,458; which consisted of \$23,529,699 paid in the form of local property taxes and \$7,060,759 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 \$2,801,594 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 \$35,933,460. Instruction and support services account for 92% of total expenses.

The general fund balance decreased \$90,874 during the year from a balance of \$4,347,123 at June 30, 2013 to a \$4,256,249 fund balance at June 30, 2014. The budgetary basis actual revenues were more than estimated in the amount of \$308,234. Total actual expenditures were less than authorized appropriations by \$1,361,773.

The June 30, 2014 ending general fund balance consisted of \$147,777 of nonspendable prepaid expenditures and inventories, \$1,711,259 restricted for capital reserves; \$75,000 committed by the voters at the district meeting; \$720,941 assigned for encumbrances; and an unassigned fund balance in the amount of \$1,601,272.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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The food service fund balance decreased \$10,328 during the year from a fund balance of \$22,396 at June 30, 2013 to a fund balance of \$12,068 (representing the amount of reserved fund balance for inventory) at June 30, 2014. The increase was primarily the result of a general fund transfer in the amount of \$36,072 that was made as an operating subsidy.

The restricted balance for capital reserves increased \$4,631 as a result of investment earnings and during the year from \$1,706,628 at June 30, 2013 to \$1,711,259 at June 30, 2014. 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, 2014, the District had invested \$39,411,117 (\$57,245,243 at cost or estimated cost less accumulated depreciation of \$17,834,126) 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 \$405,726 or 1% from the prior year.

At June 30, 2014, the District had \$21,076,938 of long-term obligations (\$22,997,582 in total obligations less the current portion of \$2,097,772).

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## OVERVIEW OF THE FINANCIAL STATEMENTS

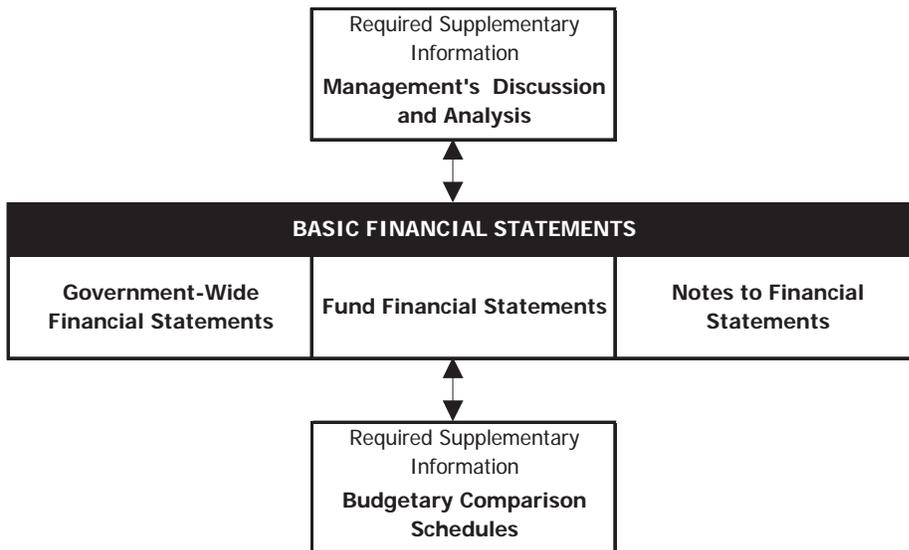
This discussion and analysis is intended to serve as an introduction to the District's annual report, which consists of a series of basic financial statements, notes and related financial or compliance information. The District's financial statements are comprised of six primary sections or components: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

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

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

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

**Exhibit A-1**



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**Exhibit A-2**

	Government-Wide	Fund Statements	
		Governmental	Fiduciary
<b>SCOPE</b>	Entire government (except fiduciary funds)	All activities of the District that are not proprietary or fiduciary	Instances in which the District is the trustee or agent for someone else's resources
<b>REQUIRED FINANCIAL STATEMENTS</b>	Statement of Net Position	Balance Sheet	Statement of Fiduciary Net Position
	Statement of Activities	Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Changes in Fiduciary Net Position
<b>ACCOUNTING BASIS</b>	Accrual	Modified Accrual	Accrual
<b>MEASUREMENT FOCUS</b>	Economic Resources	Current Financial Resources	Economic Resources
<b>TYPE OF INFORMATION ASSETS AND DEFERRED OUTFLOWS, AND LIABILITIES AND DEFERRED INFLOWS</b>	All assets and deferred outflows, and liabilities and deferred inflows, 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 deferred outflows, and liabilities and deferred inflows, both short-term and long-term; the Agency funds do not currently have capital assets although they can
<b>TYPE OF INFORMATION REVENUES, EXPENSES, AND EXPENDITURES</b>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## District Wide Financial Statements:

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

- Over time, increases or decreases in the District's net position 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 Position

Exhibit B-1 shows the composition of the District's total combined net position, which increased between June 30, 2013 and 2014 by \$1,151,842 or 6% to \$20,628,543.

### Exhibit B-1 NET POSITION

	Governmental Activities		
	2013	2014	Change
<b>Assets</b>	(Restated)		
Current and other assets	\$ 6,425,517	\$ 6,709,306	\$ 283,789
Noncurrent assets	<u>39,816,843</u>	<u>39,411,117</u>	<u>(405,726)</u>
<b>Total assets</b>	46,242,360	46,120,423	(121,937)
<b>Deferred Outflows of Resources</b>			
Deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total deferred outflows of resources</b>	-	-	-
<b>Liabilities</b>			
Current liabilities	5,288,899	4,592,070	(696,829)
Noncurrent liabilities	<u>21,476,760</u>	<u>20,899,810</u>	<u>(576,950)</u>
<b>Total liabilities</b>	26,765,659	25,491,880	(1,273,779)
<b>Deferred Inflows of Resources</b>			
Deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total deferred inflows of resources</b>	-	-	-
<b>Net Position</b>			
Net investment in capital assets	23,168,448	24,509,872	1,341,424
Restricted	1,833,929	1,828,271	(5,658)
Unrestricted	<u>(5,525,676)</u>	<u>(5,709,600)</u>	<u>(183,924)</u>
<b>Total net position</b>	<u>\$ 19,476,701</u>	<u>\$ 20,628,543</u>	<u>\$ 1,151,842</u>

A portion of the net position is 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 position; and, (2) restricted balances represent capital project, capital reserves and specific fund amounts that are not available for discretionary spending. Noncurrent assets decreased by \$405,726 primarily due to depreciation. Current assets increased by \$283,789.

Net position consisted of: \$24,509,872 net investment in capital assets; \$1,828,271 restricted for grants, food service, capital reserves, and other non-major funds for purposes of each established fund; and, an unrestricted negative balance of (\$5,709,600).

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Change in Net Position

The District's total revenues were \$37,085,302 while total expenses were \$35,933,460 resulting in an increase in net position of \$1,151,842.

## Revenues

Exhibit B-2 shows that a significant portion, 93%, of the District's total revenues came from the school district assessment (63%) and State of New Hampshire source intergovernmental revenues (30%) primarily derived from local and state-wide property taxes and other state aid programs. Investment income and operating grants and contributions provided 3% of total revenues, 1% related to charges for services and 1% from federal sources.

- School district assessment, 63% and 62% for the fiscal years ended June 30, 2014 and 2013, respectively, an increase of 7% (\$1,588,686) over the prior year amount.
- State of New Hampshire source intergovernmental revenues, 30% and 32% for the fiscal years ended June 30, 2014 and 2013. A decrease of (\$176,774) from the prior year amount.
- Operating grants and contributions, 3% and 3% for the fiscal years ended June 30, 2014 and 2013, an increase of 8% \$86,521 over the prior year amount.
- Revenues for charges for services, 1% and 2% for the fiscal years ended June 30, 2014 and 2013, respectively, a decrease of 6% (\$33,327) from the prior year amount.
- Investment income, less than 1% and less than 1% for fiscal years ended June 30, 2014 and 2013, respectively. An increase of \$683 over the prior year amount.

### Exhibit B-2 SOURCES OF DISTRICT REVENUES

	<u>2013</u>	<u>%</u>	<u>2014</u>	<u>%</u>	<u>Change</u>	<u>%</u>
<b>Program Revenues</b>						
Charges for services	\$ 535,974	2%	\$ 502,647	1%	\$ (33,327)	-6%
Operating grants and contributions	1,040,632	3%	1,127,153	3%	86,521	8%
<b>General Revenues</b>						
School district assessment	21,941,013	62%	23,529,699	63%	1,588,686	7%
Local sources	273,027	1%	94,531	0%	(178,496)	-65%
State of New Hampshire sources	11,465,346	32%	11,288,572	30%	(176,774)	-2%
Federal sources - Medicaid	324,460	1%	460,947	1%	136,487	42%
Investment income	6,598	0%	7,281	0%	683	10%
Miscellaneous	10,682	0%	74,472	0%	63,790	0%
	<u>\$ 35,597,732</u>	<u>100%</u>	<u>\$ 37,085,302</u>	<u>100%</u>	<u>\$ 1,487,570</u>	<u>4%</u>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Expenses

Exhibit B-3 shows that 92% of the District's total expenses were for instructional and support services.

- Instruction expenses, 62% and 59% for the fiscal years ended June 30, 2014 and 2013, respectively, an increase of \$2,066,844 over the prior year amount.
- Support service expenses, 30% and 31% for the fiscal years ended June 30, 2014 and 2013, respectively, a decrease of 1% (\$92,690) from the prior year amount.
- Food service program expenses, 2% and 2% for the fiscal years ended June 30, 2014 and 2013, respectively, a decrease of (\$71,196) from the prior year amount.
- Unallocated interest expense, 3% and 3% for the fiscal years ended June 30, 2014 and 2013, a decrease of 3% (\$26,227) from the prior year amount.
- Unallocated depreciation, 4% and 4% for the fiscal years ended June 30, 2014 and 2013, respectively, an increase of \$25,581 over the prior year amount.

### Exhibit B-3 DISTRICT EXPENSES

	<u>2013</u>	<u>%</u>	<u>2014</u>	<u>%</u>	<u>Change</u>	<u>%</u>
<b>Functions / Programs</b>						
Instruction	\$ 20,148,161	59%	\$ 22,215,005	62%	\$ 2,066,844	10%
Support services	10,762,953	31%	10,670,263	30%	(92,690)	-1%
Food service program	770,089	2%	698,893	2%	(71,196)	-9%
<b>Unallocated</b>						
Interest	1,020,161	3%	993,934	3%	(26,227)	-3%
Other	226,602	1%	7,116	0%	(219,486)	-97%
Depreciation	1,322,668	4%	1,348,249	4%	25,581	2%
	<u>\$ 34,250,634</u>	<u>100%</u>	<u>\$ 35,933,460</u>	<u>100%</u>	<u>\$ 1,682,826</u>	<u>5%</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

	2013		2014	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
<b>Functions / Programs</b>				
Instruction	\$ 20,148,161	\$ 19,200,960	\$ 22,215,005	\$ 21,208,179
Support services	10,762,953	10,762,953	10,670,263	10,670,263
Food service program	770,089	140,684	698,893	75,919
<b>Unallocated</b>				
Interest	1,020,161	1,020,161	993,934	993,934
Other	226,602	226,602	7,116	7,116
Depreciation	1,322,668	1,322,668	1,348,249	1,348,249
	<u>\$ 34,250,634</u>	<u>\$ 32,674,028</u>	<u>\$ 35,933,460</u>	<u>\$ 34,303,660</u>

The total cost of all governmental activities this year was \$35,933,460; the total net cost was \$34,303,660. 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 \$30,590,458; which consisted of \$23,529,699 paid in the form of local property taxes and \$7,060,759 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 \$2,801,594 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 \$7,281.
- Other local sources were received in the amount of \$94,531.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## State Sources

- School building aid was received in the amount of \$1,095,636.
- Catastrophic aid was received in the amount of \$302,834.
- Vocational aid was received in the amount of \$27,749.

## Federal Sources

- Medicaid reimbursements were received in the amount of \$346,085.
- Other sources amounted to \$114,862.

## Miscellaneous Sources

- Miscellaneous revenues in the amount of \$72,472.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### General Fund

The general fund balance decreased (\$90,874) during the year from a balance of \$4,347,123 at June 30, 2013 to a \$4,256,249 fund balance at June 30, 2014. This was attributed to several factors. The budgetary basis revenues actual was more than estimated in the amount of \$308,234. Total actual expenditures were less than authorized appropriations by \$1,361,773. The June 30, 2014 ending fund balance consisted of \$147,777 of nonspendable prepaid expenditures and inventories, \$1,711,259 restricted for capital reserves; \$75,000 committed by the voters at the district meeting; \$720,941 assigned for encumbrances; and an unassigned fund balance in the amount of \$1,601,272. In accordance with RSA 198:4-b, effective for fiscal year 2013 fund balance, the district may vote to retain unassigned general fund balance in an amount not to exceed 2.5 percent of the current fiscal year's net assessment.

### Major Funds

#### Grants Fund

The grants fund is classified as a special revenue fund and is reported as a major fund 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.

#### 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 (\$10,328) during the year from a fund balance of \$22,396 at June 30, 2013 to a fund balance of \$12,068 (representing the amount of reserved fund balance for inventory) at June 30, 2014. The increase was primarily the result of a general fund transfer in the amount of \$36,072 that was made as an operating subsidy.

### Nonmajor Funds

#### Other Grants Fund

The other grants fund is classified as a special revenue fund and is aggregated in the category nonmajor funds in the basic financial statements. It is used to account for various nonfederal grants and donations which are designated for particular purposes.

#### 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 was \$104,944.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## GENERAL FUND BUDGETARY HIGHLIGHTS

For the year ended June 30, 2014 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) were more than the budgetary revenue estimates by \$308,234.

In general, revenues from the following sources exceeded original estimates:

- Catastrophic Aid by \$77,597 and
- Medicaid reimbursements by \$211,085.

The original budget for the general fund in the amount of \$36,158,672 consists of the total appropriation voted of \$37,821,014 less amounts representing offsets for other funds; \$829,287 for the food service fund, \$833,055 for other special revenue funds.

The final budget consists of \$36,158,672 original budget plus \$697,011 encumbered and reserved funds from the year ended June 30, 2013.

Actual total outflows in the amount of \$35,493,910 were lower than the budgeted total appropriation of \$36,855,683 by a positive variance of \$1,361,773.

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):

- Instruction services were less than appropriations by \$338,576.
- Student support services were less than appropriations by \$213,593
- Operation and maintenance expenditures were less than appropriations by \$570,072.
- Student transportation costs were less than appropriations by \$252,541.

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, 2014, the District had invested \$39,411,117 (\$57,245,243 at cost or estimated cost less accumulated depreciation of \$17,834,126) 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 \$405,726 or 1% from the prior year. This year's major additions are also summarized in Exhibit C-1.

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

Net Capital Assets	<u>2013</u>	<u>2014</u>	<u>Change</u>
Land and improvements	\$ 805,748	\$ 976,891	21%
Buildings	48,101,714	48,552,867	1%
Furniture, equipment & vehicle	3,503,521	3,629,203	4%
Technology equipment	<u>4,009,824</u>	<u>4,086,282</u>	<u>2%</u>
<b>Capital assets, at cost</b>	56,420,807	57,245,243	1%
Accumulated Depreciation	<u>(16,603,964)</u>	<u>(17,834,126)</u>	<u>-7%</u>
<b>Capital assets, net</b>	<u>\$ 39,816,843</u>	<u>\$ 39,411,117</u>	<u>-1%</u>
<b>Increase in Capital Assets, Net</b>		<u>\$ (405,726)</u>	
<b>Changes</b>			
Increase in buildings		\$ 451,153	
Increase in land and improvements		171,143	
Increase in furniture and equipment		125,682	
Increase in technology equipment		201,661	
Depreciation		(1,348,249)	
Gain (Loss) on disposals		(7,116)	
		<u>\$ (405,726)</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, 2014, the District had \$20,899,810 of long-term obligations (\$22,997,582 in total obligations less the current portion of \$2,097,772) as summarized in Exhibit C-2.

This amount represents a net decrease of 2.69% from the prior year.

### Exhibit C-2 LONG-TERM LIABILITIES

Long-Term Liabilities	Governmental Activities		
	2013	2014	Change
General obligation bonds	\$ 22,043,778	\$ 20,545,026	-6.80%
Unamortized bond premiums	211,226	177,949	-15.75%
Compensated absences	43,024	63,586	47.79%
Early retirement obligations - payments	710,305	493,188	-30.57%
Early retirement obligations - healthcare	603,158	412,130	-31.67%
Net OPEB obligation	1,063,088	1,305,703	22.82%
	24,674,579	22,997,582	-6.80%
Less current portion	(3,197,819)	(2,097,772)	-34.40%
	<u>\$ 21,476,760</u>	<u>\$ 20,899,810</u>	<u>-2.69%</u>
<b>Decrease, Net</b>		<u>\$ (576,950)</u>	
<b>Changes</b>			
Principal payments on general obligation bonds		\$ (1,747,150)	
Capital Appreciation Bond accrued interest change		248,398	
Amortization of bond premiums		(33,277)	
Change in compensated absences		20,562	
Change in retirement obligations - payments		(217,117)	
Change in retirement obligations - health		(191,028)	
Change in net OPEB obligation		242,615	
Change in current portion		1,100,047	
		<u>\$ (576,950)</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, 2014 the estimated legal debt limit is approximately \$292,167,433 on equalized valuation of \$2,921,674,325.

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 2013-2014 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 decreased from \$2,831,596 for 2012-2013 to \$2,801,594 for 2013-2014. The State Education tax decreased from \$7,137,962 for 2012-2013 to \$7,060,759 for 2013-2014.

	<b>Equitable Education Grant 2013-2014</b>	<b>State Education Tax 2013-2014</b>
Town of Bradford	\$ 592,597	\$ 523,224
Town of New London	\$ -	\$ 2,617,444
Town of Newbury	\$ 4,256	\$ 1,730,027
Town of Springfield	\$ 469,431	\$ 432,653
Town of Sutton	\$ 396,991	\$ 649,730
Town of Warner	\$ 1,023,281	\$ 675,707
Town of Wilmot	\$ 315,038	\$ 431,974
	<u>\$ 2,801,594</u>	<u>\$ 7,060,759</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 2013-2014 and 2014-2015.

	<b>Fiscal Year (Actual) 2013-2014</b>	<b>Fiscal Year (Budget) 2014-2015</b>	<b>Change</b>
Town of Bradford	\$ 2,312,367	\$ 2,500,313	8%
Town of New London	6,298,681	6,596,632	5%
Town of Newbury	4,113,390	4,377,758	6%
Town of Springfield	2,273,604	2,509,070	10%
Town of Sutton	3,305,135	3,453,737	4%
Town of Warner	3,346,204	3,621,852	8%
Town of Wilmot	1,880,318	1,991,889	6%
	<u>\$ 23,529,699</u>	<u>\$ 25,051,251</u>	<u>6%</u>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## HEALTH INSURANCE PREMIUM HOLIDAYS – CURRENT AND FUTURE IMPACT

The school district is a member of the New Hampshire School Health Care Coalition (“SchoolCare”) which, with the approval of the Secretary of State, Bureau of Securities entered into in April 2012, changed the method of returning surplus through “Rate Stabilization” to “Premium Holiday” in order to provide greater transparency and to share such returns with currently health care premium contributors. In order to receive such premium holiday’s the school district must be a participating member at the time of the effective date of the premium holiday by SchoolCare.

As a result of this change, for the fiscal year ending June 30, 2013, the school district received \$227,138 in December of 2012 as a credit to monthly health insurance premiums billed to the school district. This amount resulted in a decrease in the actual amount health insurance expended for the fiscal year; health insurance was originally budgeted without anticipation of this premium holiday.

In December of 2013, SchoolCare’s premium holiday for the fiscal year ending June 30, 2014 was declared in the amount of \$227,138. This amount will result in a decrease in the actual amount health insurance expended for the fiscal year; however, health insurance was budgeted with anticipation of this premium holiday (utilizing the “Effective Rate”).

In November of 2014, SchoolCare’s premium holiday for the fiscal year ending June 30, 2015 was declared in the original amount of \$392,064. This amount will result in a decrease in the actual amount health insurance expended for the fiscal year; however, health insurance was budgeted with anticipation of this premium holiday (utilizing the “Effective Rate”). In April of 2014, SchoolCare declared that the premium holiday would increase to \$759,556; however the amounts budgeted under the effective rate were based upon the original amount declared and did not include this increase in the premium holiday (and reduction in health insurance expenditures). The credit of \$759,556 will be in July, 2014.

## 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 Mr. Larry LeBoeuf, Business Administrator, at (603-526-2051) or by mail at:

Kearsarge Regional School District  
Attn: Larry LeBoeuf  
114 Cougar Court  
New London, New Hampshire 03257

## **BASIC FINANCIAL STATEMENTS**

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Statement of Net Position June 30, 2014

	<u>Primary Government Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 682,225
Investments	3,235,711
Receivables, net	2,126,070
Due from other governments	505,457
Inventories	142,467
Prepaid	17,376
Capital assets:	
Land, improvements, and construction in progress	976,891
Other capital assets, net of accumulated depreciation	<u>38,434,226</u>
Total assets	<u>46,120,423</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources	<u>-</u>
Total deferred outflows of resources	<u>-</u>
<b>LIABILITIES</b>	
Accounts payable	393,192
Accrued expenses	1,347,530
Deferred revenue	745,726
Current portion of long-term liabilities	2,097,772
Other liabilities	7,850
Bonds payable	18,867,323
Compensated absences/retirement obligations	572,199
Unamortized bond premiums	154,585
Post employment benefit obligation	<u>1,305,703</u>
Total liabilities	<u>25,491,880</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources	<u>-</u>
Total deferred inflows of resources	<u>-</u>
<b>NET POSITION</b>	
Net investment in capital assets	24,509,872
Restricted for:	
Capital reserves	1,711,259
Lunch program	12,068
Other nonmajor purposes	104,944
Unrestricted	<u>(5,709,600)</u>
Total net position	<u>\$ 20,628,543</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, 2014

Functions / Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and
				Changes in Net Position
			Primary Governmental Activities	
Governmental activities:				
Instruction				
Regular instruction	\$ 14,879,648	\$ 46,504	\$ -	\$ (14,833,144)
Special education instruction	5,825,952	18,073	942,249	(4,865,630)
Other instruction	1,509,405	-	-	(1,509,405)
Support services				
Student support services	1,358,823	-	-	(1,358,823)
Instructional staff services	640,743	-	-	(640,743)
General administration	308,796	-	-	(308,796)
Executive administration	1,270,177	-	-	(1,270,177)
School administrative services	1,911,649	-	-	(1,911,649)
Business services	(13,846)	-	-	13,846
Operation and maintenance	2,734,367	-	-	(2,734,367)
Student transportation	2,459,554	-	-	(2,459,554)
Food service program	698,893	438,070	184,904	(75,919)
Interest expense	993,934	-	-	(993,934)
Other uses / expenses	7,116	-	-	(7,116)
Depreciation (unallocated)	1,348,249	-	-	(1,348,249)
Total governmental activities	<u>35,933,460</u>	<u>502,647</u>	<u>1,127,153</u>	<u>(34,303,660)</u>
General revenues:				
School district assessment				\$ 23,529,699
Grants and contributions not restricted to specific purposes:				
Local sources				94,531
State of New Hampshire sources				11,288,572
Federal sources				460,947
Investment Income				7,281
Miscellaneous				72,472
Other financing sources				2,000
Total general revenues				<u>35,455,502</u>
Change in net position				1,151,842
Net position - beginning (as restated)				<u>19,476,701</u>
Net position - ending				<u>\$ 20,628,543</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, 2014

	General Fund	Grants Fund	Food Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 682,225	\$ -	\$ -	\$ -	\$ 682,225
Investments	2,403,426	-	681,609	150,676	3,235,711
Held by trustees	1,711,259	-	-	-	1,711,259
Receivables, net	413,852	-	959	-	414,811
Due from other governments	-	400,410	19,963	85,084	505,457
Due from other funds	856,448	-	-	188,850	1,045,298
Inventories	130,401	-	12,066	-	142,467
Prepays	17,376	-	-	-	17,376
Total assets	<u>\$ 6,214,987</u>	<u>\$ 400,410</u>	<u>\$ 714,597</u>	<u>\$ 424,610</u>	<u>\$ 7,754,604</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 354,110	\$ 15,596	\$ 23,121	\$ 365	\$ 393,192
Accrued expenses	1,157,015	32,262	-	-	1,189,277
Due to other funds	-	333,231	666,335	45,732	1,045,298
Deferred revenue	447,613	11,471	13,073	273,569	745,726
Other liabilities	-	7,850	-	-	7,850
Total liabilities	<u>1,958,738</u>	<u>400,410</u>	<u>702,529</u>	<u>319,666</u>	<u>3,381,343</u>
Fund balances:					
Nonspendable	147,777	-	12,066	-	159,843
Restricted	1,711,259	-	-	104,944	1,816,203
Committed	75,000	-	-	-	75,000
Assigned	720,941	-	2	-	720,943
Unassigned	1,601,272	-	-	-	1,601,272
Total fund balance	<u>4,256,249</u>	<u>-</u>	<u>12,068</u>	<u>104,944</u>	<u>4,373,261</u>
Total liabilities and fund balances	<u>\$ 6,214,987</u>	<u>\$ 400,410</u>	<u>\$ 714,597</u>	<u>\$ 424,610</u>	<u>\$ 7,754,604</u>

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

# KEARSARGE REGIONAL SCHOOL DISTRICT

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## Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2014

**Total Fund Balances - Governmental Funds** \$ 4,373,261

Amounts reported for governmental activities in the statement of net position 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	\$ 57,245,243	
Less accumulated depreciation	<u>(17,834,126)</u>	39,411,117

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	(20,545,026)	
Compensated absences	(63,586)	
Special early termination benefits	(905,318)	
Unamortized bond premium	(177,949)	
OPEB obligation	<u>(1,305,703)</u>	(22,997,582)

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.

(158,253)

**Total Net Position - Governmental Activities** \$ 20,628,543

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, 2014

	<u>General Fund</u>	<u>Grants Fund</u>	<u>Food Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
School district assessment	\$ 23,529,699	\$ -	\$ -	\$ -	\$ 23,529,699
Local sources	152,724	-	438,070	39	590,833
State of New Hampshire sources	11,294,956	-	6,068	-	11,301,024
Federal sources	346,085	942,249	208,213	85,485	1,582,032
Miscellaneous	72,472	-	-	-	72,472
Investment income	<u>7,100</u>	<u>-</u>	<u>142</u>	<u>-</u>	<u>7,242</u>
Total revenues	<u>35,403,036</u>	<u>942,249</u>	<u>652,493</u>	<u>85,524</u>	<u>37,083,302</u>
<b>Expenditures</b>					
Current:					
Instruction	21,570,121	942,249	-	87,485	22,599,855
Support services	2,007,530	-	-	-	2,007,530
General administration	308,796	-	-	-	308,796
Executive administration	9,063,694	-	-	-	9,063,694
Food service program	-	-	698,893	-	698,893
Debt service:					
Principal	1,747,151	-	-	-	1,747,151
Interest	<u>760,546</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>760,546</u>
Total expenditures	<u>35,457,838</u>	<u>942,249</u>	<u>698,893</u>	<u>87,485</u>	<u>37,186,465</u>
Excess (deficiency) of revenues over expenditures	(54,802)	-	(46,400)	(1,961)	(103,163)
<b>Other Financing Sources (Uses)</b>					
Contributions	-	-	-	2,000	2,000
Transfers in	-	-	36,072	14,056	50,128
Transfers out	<u>(36,072)</u>	<u>-</u>	<u>-</u>	<u>(14,056)</u>	<u>(50,128)</u>
Net change in fund balances	(90,874)	-	(10,328)	39	(101,163)
Fund balances - beginning of year (as restated)	<u>4,347,123</u>	<u>-</u>	<u>22,396</u>	<u>104,905</u>	<u>4,474,424</u>
Fund balances - end of year	<u>\$ 4,256,249</u>	<u>\$ -</u>	<u>\$ 12,068</u>	<u>\$ 104,944</u>	<u>\$ 4,373,261</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, 2014

**Total Net Change in Fund Balances - Governmental Funds** \$ (101,163)

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	\$ 949,639	
Depreciation expense	(1,348,249)	
Loss on disposal of assets	<u>(7,116)</u>	(405,726)

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 position.

Principal on bonds	1,747,150	
Principal on capital leases	<u>-</u>	1,747,150

Interest on long-term liabilities in the statement of activities differs from the amount reported in the governmental funds 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	(18,266)	
Accrued CAB interest liability (increase) decrease	<u>(248,398)</u>	(266,664)

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

Compensated absences (increase) decrease	(20,562)	
Early retirement (increase) decrease	408,145	
Unamortized bond premium (increase) decrease	33,277	
OPEB obligation (increase) decrease	<u>(242,615)</u>	<u>178,245</u>

**Change in Net Position of Governmental Activities** \$ 1,151,842

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

# KEARSARGE REGIONAL SCHOOL DISTRICT

Statement of Net Position  
Fiduciary Funds  
June 30, 2014

	Scholarship Trusts	Student Activities	Total Fiduciary Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 41,577	\$ 179,976	\$ 221,553
Due from other funds	<u>2</u>	<u>-</u>	<u>2</u>
Total assets	<u>\$ 41,579</u>	<u>\$ 179,976</u>	<u>\$ 221,555</u>
<b>Liabilities</b>			
Due to student groups	<u>\$ -</u>	<u>\$ 179,976</u>	<u>\$ 179,976</u>
Total liabilities	<u>\$ -</u>	<u>\$ 179,976</u>	<u>\$ 179,976</u>
<b>Net Position</b>			
Held in trust for private purposes	<u>\$ 41,579</u>	<u>\$ -</u>	<u>\$ 41,579</u>
Total net position	<u>\$ 41,579</u>	<u>\$ -</u>	<u>\$ 41,579</u>

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

# KEARSARGE REGIONAL SCHOOL DISTRICT

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## Statement of Changes in Fiduciary Net Position Private Purpose Trust Funds Year Ended June 30, 2014

	<u>Scholarship Trusts</u>	<u>Total Private Purpose Trust Funds</u>
<b>Additions:</b>		
Local sources	\$ 16,243	\$ 16,243
Total additions	<u>16,243</u>	<u>16,243</u>
<b>Deductions:</b>		
Support services	<u>18,705</u>	<u>18,705</u>
Total deductions	<u>18,705</u>	<u>18,705</u>
Operating income (loss)	<u>(2,462)</u>	<u>(2,462)</u>
Change in net position	(2,462)	(2,462)
Net position beginning of year	<u>44,041</u>	<u>44,041</u>
Net position end of year	<u>\$ 41,579</u>	<u>\$ 41,579</u>

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

## **NOTES TO BASIC FINANCIAL STATEMENTS**

# KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements  
June 30, 2014

## 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 Position, 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 position is reported in three parts – net investment in capital assets; restricted; and unrestricted. 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 position 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 position and, for private purpose trust funds, changes in net position. 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 POSITION 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, 2014

## 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, 2014

## Governmental Fund Equity and Fund Balance Policy

The district has implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement established new fund balance classifications and reporting requirements as follows:

**Nonspendable** – Are fund balances that cannot be spent because they are either; not in spendable form, such as inventories or prepaid amounts, or are legally or contractually required to be maintained intact, such as the principal of a permanent fund.

**Restricted** – Are amounts that can only be used for specific purposes because of enabling legislation or externally imposed constraints, such as grant requirements or laws or regulations.

**Committed** – Are amounts that can be used for specific purposes because of a formal action by the entities highest level of decision-making authority. This would include contractual obligations if existing resources have been committed. Formal action to establish constraints should be taken before year-end, even if the amount might not be determined until the subsequent period.

**Assigned** – Are amounts intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, or by an official whom authority has been given. This is the residual fund balance classification of all governmental funds except the general fund. Assigned fund balances should not be reported in the general fund if doing so causes the government to report a negative “unassigned” general fund balance.

**Unassigned** – Is the residual classification for the general fund. The general fund is the only governmental fund that can report a positive unassigned fund balance. Other governmental funds might have a negative unassigned fund balance as a result of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

In instances where both restricted and unrestricted fund balances are available to fund expenditures, the restricted fund balances will be exhausted first, followed by committed, assigned and unassigned fund balances.

## 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, 2014, the District had not exceeded its legal debt limit of approximately \$288,759,520 on \$2,887,595,205 of equalized valuation as of April 1, 2012.

### 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. There have no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**Primex<sup>3</sup>** - The District is a participating member in the *Workers' Compensation* and *Liability/Property* (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 and Treasurer Bond) programs of the New Hampshire Public Risk Management Exchange ("*Primex<sup>3</sup>*").

*Primex<sup>3</sup>* is a risk management nonprofit public entity formed in 1979 pursuant to RSA 292 which operates multiple pooled risk management programs (*Workers' Compensation* established in 1979 and *Property/Liability* established in 1988). The *Primex<sup>3</sup>* member risk pool retains Loss Funds of \$500,000 of each *Workers' Compensation* loss (up to \$2,000,000), \$500,000 of each *Liability* loss and \$200,000 of each *Property* loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose.

The *Workers' Compensation* Section of the Self-Insurance Membership Agreement permits *Primex<sup>3</sup>* to make additional assessments to members should there be a deficiency in contributions for any year, not to exceed the member's annual contribution. At this time, *Primex<sup>3</sup>* foresees no likelihood of an assessment for this or any prior year.

**SchoolCare** - The District is a member in the New Hampshire School Health Coalition ("*SchoolCare*"). *SchoolCare* is a labor and management nonprofit corporation formed on February 28, 1995 pursuant to NH RSA 292. *SchoolCare* is a health and dental public entity pooled risk management program governed under RSA 5-B and contracts the administration of the health and dental benefits to Cigna HealthCare and is monitored by the *SchoolCare* Board for service, quality and cost.

Annual benefit premiums are fixed and are determined based upon rate and cost history; surplus over reserve funds are returned to participating members under a "Premium Holiday" in which the District is provided a credit on a specific monthly premium billing. As a result of this change, for the fiscal year ending June 30, 2013, the school district received \$227,138 in December of 2012 as a credit to monthly health insurance premiums billed to the school district.

In December of 2013, *SchoolCare's* premium holiday for the fiscal year ending June 30, 2014 was declared in the amount of \$227,138.

In November of 2013, *SchoolCare's* premium holiday for the fiscal year ending June 30, 2015 was declared in the original amount of \$392,064 and was amended in April of 2014 to a revised amount of \$759,556. That credit of \$759,556 will be applied in July, 2014.

# KEARSARGE REGIONAL SCHOOL DISTRICT

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Notes to Basic Financial Statements  
June 30, 2014

## 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, 2014, 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 \$4,256,249 fund balance in the general fund is comprised of \$147,777 of nonspendable fund balance, \$1,711,259 of amounts restricted for capital reserves, \$75,000 committed by the voters and the district meeting, an assigned fund balance subject to encumbered obligations in the amount of \$720,941 and an unassigned fund balance in the amount of \$1,601,272.

### Food Service

The Food Service Fund received an operating transfer subsidy from the general fund in the amount of \$36,072. The year end nonspendable fund balance of \$12,066 is for inventories.

# KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements  
June 30, 2014

## NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and equivalents	\$ 682,225
Investments	3,235,711
Fiduciary funds:	
Cash and investments	221,553
	<u>\$ 4,139,489</u>

Deposits and investments as of June 30, 2014 consist of the following:

Cash on hand	\$ -
Deposits with financial institutions	903,778
Investments	3,235,711
	<u>\$ 4,139,489</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, 2014

Investments made by the District as of June 30, 2014 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	<u>3,235,711</u>	Not Rated	
	<u>\$ 3,235,711</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	\$ -	\$ -	\$ -	\$ -
Federal Farm Credit	\$ -	\$ -	\$ -	\$ -

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, 2014, \$484,892 of the District's \$1,484,966 bank balance was covered by deposit insurance and the balance, \$1,000,074 was uninsured. 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, 2014

## NOTE 4 - INTERFUND BALANCES AND TRANSFERS

Individual interfund balances, resulting primarily from utilization of centralized general fund cash accounts, at June 30, 2014 consisted of the following:

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
General fund	\$ 856,448	\$ -
Grants fund	-	333,231
Food service fund	-	666,335
Nonmajor Funds:		
Other grants fund	188,850	-
Roof bond	-	45,732
	<u>\$ 1,045,298</u>	<u>\$ 1,045,298</u>

Individual interfund transfers, resulting from routine transfers during the year based upon statutory or budgetary authorization, for the year ended June 30, 2014 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General fund	\$ -	\$ 36,072
Food service fund	36,072	-
Nonmajor Funds:		
Roof bond	14,056	-
High school addition	-	14,056
	<u>\$ 50,128</u>	<u>\$ 50,128</u>

# KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements  
June 30, 2014

## NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2014 consisted of the following:

	<u>General Fund</u>	<u>Grants Fund</u>	<u>Food Service Fund</u>	<u>Nonmajor Governmental Funds</u>
Local Governments				
Town of Warner	\$ -	\$ -	\$ -	\$ -
Town of New London - Trustees	1,711,259	-	-	-
Federal / State Government				
Pass-through grants and other	-	400,410	-	85,084
Food program reimbursements	-	-	19,963	-
	<u>\$ 1,711,259</u>	<u>\$ 400,410</u>	<u>\$ 19,963</u>	<u>\$ 85,084</u>

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

The District capital reserve funds, reported as a restricted general fund balance, 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, 2014:

- "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 \$174,610.
- "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 \$727,525.
- "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 \$379,463.
- "Emergency Funding of Unanticipated Special Education Costs" - Expendable Trust Fund - Established March 2008 - School Board agents to expend, with a balance of \$228,728.
- "School Buildings Maintenance Fund" - Expendable Trust Fund - Established March 2009 - School Board agents to expend, with a balance of \$200,933.

# KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements  
June 30, 2014

## NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Governmental Activities (at cost)</b>				
<b>Capital assets not being depreciated:</b>				
Land and improvements	\$ 506,810	\$ -	\$ -	\$ 506,810
Construction in progress	-	-	-	-
	<u>506,810</u>	<u>-</u>	<u>-</u>	<u>506,810</u>
<b>Capital assets being depreciated:</b>				
Land improvements	298,938	171,143	-	470,081
Buildings	48,101,714	451,153	-	48,552,867
Vehicles	44,748	51,143	-	95,891
Furniture and equipment	3,458,773	74,539	-	3,533,312
Technology equipment	4,009,824	201,661	125,203	4,086,282
	<u>55,913,997</u>	<u>949,639</u>	<u>125,203</u>	<u>56,738,433</u>
Less accumulated depreciation:				
Land improvements	218,889	10,341	-	229,230
Buildings	10,944,240	848,435	-	11,792,675
Vehicles	43,376	10,088	-	53,464
Furniture and equipment	2,173,189	142,358	-	2,315,547
Technology equipment	3,224,270	337,027	118,087	3,443,210
Accumulated depreciation	<u>16,603,964</u>	<u>1,348,249</u>	<u>118,087</u>	<u>17,834,126</u>
Capital assets being depreciated, net	<u>39,310,033</u>	<u>(398,610)</u>	<u>7,116</u>	<u>38,904,307</u>
<b>Governmental activities capital assets, Net of accumulated depreciation</b>	<u>\$ 39,816,843</u>	<u>\$ (398,610)</u>	<u>\$ 7,116</u>	<u>\$ 39,411,117</u>
Depreciation expense for the year ended June 30, 2014 (unallocated)				<u>\$ 1,348,249</u>

# KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements  
June 30, 2014

## 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 2004 and 2006 issuances were Capital Appreciation Bonds (CAB's) in which scheduled payments do not bear current interest. As a result, interest is compounded on each payment date. At June 30, 2014, the principal balance of all bonds outstanding was \$20,545,026, which includes compounded accreted interest of \$5,643,781 on the Capital Appreciation Bonds. 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, 2014 is as follows:

	General Obligation Bonds	Capital Appreciation Bonds Interest	Bond Premiums	Compensated Absences	Total
Beginning balance	\$ 16,648,395	\$ 5,395,383	\$ 211,226	\$ 43,024	\$ 22,298,028
Additions	-	248,398	-	20,562	268,960
Reductions	(1,747,150)	-	(33,277)	-	(1,780,427)
Ending balance	<u>14,901,245</u>	<u>5,643,781</u>	<u>177,949</u>	<u>63,586</u>	<u>20,786,561</u>
Current portion	1,677,703	-	23,364	-	1,701,067
Noncurrent portion	<u>13,223,542</u>	<u>5,643,781</u>	<u>154,585</u>	<u>63,586</u>	<u>19,085,494</u>
	<u>\$ 14,901,245</u>	<u>\$ 5,643,781</u>	<u>\$ 177,949</u>	<u>\$ 63,586</u>	<u>\$ 20,786,561</u>

Long-term liabilities outstanding at June 30, 2014 consisted of the following:

	Issue Year	Interest Rate	Maturity Date	Issue Amount Net (Discount) Premium	Amount Outstanding 6/30/14
<u>General Obligation Bonds</u>					
Middle School - CAB	2006	4.00-5.00	2026	\$ 24,719,000	\$ 12,879,270
High School Addition - CAB	2004	3.00-5.00	2014	3,259,044	236,948
CAB interest					5,643,781
Energy Improvements	2011	4.375	2026	2,231,283	<u>1,785,027</u>
					<u>20,545,026</u>
<u>Other Long-Term Obligations</u>					
Compensated absences					63,586
Bond premiums					<u>177,949</u>
					<u>\$ 20,786,561</u>

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Notes to Basic Financial Statements June 30, 2014

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,677,703	\$ 832,392	\$ 2,510,095
2016	1,378,878	731,709	2,110,587
2017	1,322,285	780,847	2,103,132
2018	1,269,593	827,852	2,097,445
2019	1,219,339	872,774	2,092,113
After	<u>8,033,447</u>	<u>8,326,237</u>	<u>16,359,684</u>
	<u>\$ 14,901,245</u>	<u>\$ 12,371,811</u>	<u>\$ 27,273,056</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 that 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, 2014 is as follows:

	<u>Early Retirement Payments</u>	<u>Early Retirement Healthcare</u>	<u>Total</u>
Beginning balance	\$ 710,305	\$ 603,158	\$ 1,313,463
Additions	90,428	-	90,428
Reductions	<u>(307,545)</u>	<u>(191,028)</u>	<u>(498,573)</u>
Ending balance	<u>493,188</u>	<u>412,130</u>	<u>905,318</u>
Current portion	219,577	177,128	396,705
Noncurrent portion	<u>273,611</u>	<u>235,002</u>	<u>508,613</u>
	<u>\$ 493,188</u>	<u>\$ 412,130</u>	<u>\$ 905,318</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 7.0% of their covered salary. The District's contribution rates for the year ended June 30, 2014 were 14.16% and 10.77% of covered payroll for teachers and other employees, respectively. The District's contributions to the System for the years ending June 30, 2014, 2013, and 2012 were \$2,064,620, \$1,591,884, and \$1,467,073, respectively, equal to the required contributions for each year.

## 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

### POST EMPLOYMENT BENEFITS

#### Plan description and annual OPEB cost

Benefits provided to retirees follow New Hampshire Statute 100-A:50 (Medical Insurance Coverage). This statute states that the 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."

The school district provides medical benefits to its eligible retirees. The benefits are provided through fully insured plans that are sponsored by a state-wide health insurance consortium. Teachers hired prior to 12/31/1992 with no break in service can retire at any age. All other employee groups are eligible to retire after reaching age 55. Retirees are required to pay 100% of the medical premium for both individual and spouse coverage. This valuation does not account for the cost of benefits to retirees or their spouses after age 65. Surviving beneficiaries continue to receive coverage after the death of the eligible retired employee but are required to continue to pay 100% of the medical premium.

The school district implemented GASB Statement 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions. This required the school district to calculate and record a net other post-employment benefit obligation at year end. The net other post-employment benefit obligation is basically the cumulative difference between the required contribution and the actual contributions made.

Currently, 43 retired employees receive health benefits from the school district. The school district recognizes the cost of providing health insurance annually as expenditures in the general fund of the funds financial statements as payments are made. For the year ended June 30, 2014, the school district recognized \$0 for its share of insurance premiums for currently enrolled retirees.

The school district has obtained a valuation report which indicates that the total liability for other post-employment benefits is \$3,689,543 (\$1,376,107 related to retirees and \$2,313,436 related to employees).

The school district's annual other post-employment benefit (OPEB) cost (expense) for its plan is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years.

#### Funding Policy

The district offers benefits that require the retiree to pay 100% of the cost of premiums. The underlying OPEB obligation for the district arises from an implied subsidy based on the fact that the benefits provided to the active and retired employees are identical. As a result, the active employees are subsidizing the cost of the benefits provided to the retired employees. The funding policy used by the school is based on the pay - as-you-go methodology with the exception that the funding for the cost of retiree benefits is recognized annually through the payment of the premiums for the active employees. This funding practice results in no Net OPEB Obligation being carried to the balance sheet for the retirees.

# KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements  
June 30, 2014

## Annual OPEB Cost and Net OPEB Obligation

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

	For the Year Ended June 30, 2013	For the Year Ended June 30, 2014
Annual Required Contribution (ARC)	\$ 365,884	\$ 360,157
Interest on Net OPEB Obligation	33,651	42,524
Adjustment to ARC (if Applicable)	<u>(47,707)</u>	<u>(60,285)</u>
Annual OPEB Cost (Expense)	351,828	342,396
Contributions Made - Active Employees Premium Subsidy Paid	<u>130,021</u>	<u>99,781</u>
Increase (Decrease) in Net OPEB Obligation	221,807	242,615
Net OPEB Obligation - Beginning of Year	<u>841,281</u>	<u>1,063,088</u>
Net OPEB Obligation - End of Year	<u>\$ 1,063,088</u>	<u>\$ 1,305,703</u>

The school district's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2011	\$ 361,129	30.01%	\$571,852
June 30, 2012	\$ 350,197	23.06%	\$841,281
June 30, 2013	\$ 351,828	36.96%	\$1,063,088
June 30, 2014	\$ 342,396	29.14%	\$1,305,703

As of the most recent valuation date, the plan was 0% funded. The accrued liability for benefits was \$3,689,543 and the value of assets was \$0, resulting in an unfunded accrued liability (UAL) of \$3,689,543. The covered payroll (annual payroll of active employee covered by the plan) was \$16,508,183, and the ratio of the UAL to the covered payroll was 20.63%. Valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the accrued liabilities for benefits.

# KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements  
June 30, 2014

## Actuarial Methods and Assumptions

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

In the most recent valuation, the Projected Unit Credit cost method was used, the assumptions included a 4.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date.

The annual healthcare cost trend rates below were applied:

<u>Year</u>	<u>Medical</u>
June 30, 2013	7.06%
June 30, 2014	9.00%
June 30, 2015	8.00%
June 30, 2016	7.00%
June 30, 2017	6.00%
June 30, 2018	5.00%

The remaining amortization period at June 30, 2014 was 29 years.

# KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements  
June 30, 2014

## NOTE 12 - FUND BALANCE COMPONENTS

The District's governmental fund balance components under GASB 54 are comprised of the following:

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:				
Inventories	\$ 130,401	\$ 12,066	\$ -	\$ 142,467
Prepaid expenditures	17,376	-	-	17,376
Restricted:				
Bond restrictions	-	-	104,944	104,944
Capital reserves	1,711,259	-	-	1,711,259
Committed:				
Designated by district meeting	75,000	-	-	75,000
Assigned:				
Encumbrances	720,941	2	-	720,943
Unassigned:	<u>1,601,272</u>	<u>-</u>	<u>-</u>	<u>1,601,272</u>
	<u>\$ 4,256,249</u>	<u>\$ 12,068</u>	<u>\$ 104,944</u>	<u>\$ 4,373,261</u>

## NOTE 13 - RESTATEMENT OF NET POSITION

Deferred revenues in the Other Grants Fund were understated in the prior year by \$69,822. As a result the net position reported was overstated by the same amount.

The government-wide net position was restated as follows:

	<u>Governmental Activities</u>
Net position as of July 1, 2013	\$ 19,546,523
Correction of deferred revenue in other grant funds	<u>(69,822)</u>
Net position as of July 1, 2013 - Restated	<u>\$ 19,476,701</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Budgetary Comparison Schedule - General Fund Year Ended June 30, 2014

	Original			
	Budget	Final Budget	Actual	Variance
<b>Budgetary Fund Balance - Beginning</b>	\$ 1,068,501	\$ 1,765,512	\$ 2,640,495	\$ 874,983
Resources (inflows):				
School district assessment				
Local school tax	23,529,699	23,529,699	23,529,699	-
Local sources				
Tuition	80,000	80,000	58,193	(21,807)
Earnings on investments	3,000	3,000	2,469	(531)
Other	68,000	68,000	94,531	26,531
State of New Hampshire sources				
School building aid	1,095,636	1,095,636	1,095,636	-
Catastrophic aid	225,237	225,237	302,834	77,597
Vocational aid	11,000	11,000	27,749	16,749
Adult education	6,000	6,000	6,384	384
Adequacy grant	2,801,594	2,801,594	2,801,594	-
State education tax	7,060,759	7,060,759	7,060,759	-
Federal sources				
Medicaid distribution	135,000	135,000	346,085	211,085
Other	74,246	74,246	-	(74,246)
Miscellaneous				
Bond interest	-	-	72,472	72,472
Amounts available for appropriation	<u>36,158,672</u>	<u>36,855,683</u>	<u>38,038,900</u>	<u>1,183,217</u>
Charges to appropriations (outflows):				
Instruction				
Regular instruction	15,330,069	15,370,373	15,209,731	160,642
Special education instruction	6,028,287	6,032,215	5,880,719	151,496
Other instruction	489,764	489,764	463,819	25,945
Adult and community programs	16,345	16,345	15,852	493
Support services				
Student support services	1,476,081	1,476,991	1,358,823	118,168
Instructional staff services	715,004	744,132	648,707	95,425
General administration				
Other school board	307,456	307,456	308,796	(1,340)
Executive administration				
SAU management services	1,286,712	1,287,083	1,270,177	16,906
School administrative services	1,902,692	1,904,146	1,911,649	(7,503)
Operation and maintenance	3,426,293	3,992,386	3,422,314	570,072
Student transportation	2,657,272	2,712,095	2,459,554	252,541
Debt service				
Debt service principal	1,747,151	1,747,151	1,747,151	-
Debt service interest	760,546	760,546	760,546	-
Operating transfers out				
Special revenue funds	15,000	15,000	36,072	(21,072)
Total charges to appropriations	<u>36,158,672</u>	<u>36,855,683</u>	<u>35,493,910</u>	<u>1,361,773</u>
<b>Budgetary Fund Balance - Ending</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,544,990</u>	<u>\$ 2,544,990</u>

See the accompanying notes to the required supplementary information.

# KEARSARGE REGIONAL SCHOOL DISTRICT

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## Schedule of Funding Progress for Other Postemployment Benefits Year Ended June 30, 2014

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrual Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Estimated Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll (AAL)</b>
July 1, 2011	\$ -	\$ 3,405,590	\$ 3,405,590	NA	\$ 16,508,183	20.63%
July 1, 2012	\$ -	\$ 3,822,762	\$ 3,822,762	NA	\$ 14,958,782	25.56%
July 1, 2013	\$ -	\$ 3,689,543	\$ 3,689,543	NA	\$ 15,257,958	24.18%

See the accompanying notes to the required supplementary information.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

# KEARSARGE REGIONAL SCHOOL DISTRICT

Notes to Required Supplementary Information  
June 30, 2014

## 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 \$36,158,672 consists of the voted appropriation of \$37,821,014 less \$829,287 for the Food Service Fund, and \$833,055 for Other Special Revenue Funds.

### 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 and reserves of \$697,011 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, 2014

## NOTE 2 - EXPLANATION OF BUDGETARY TO GAAP DIFFERENCES

### Basis and Timing Differences

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

<u>Budgetary Fund</u>	<u>General Fund</u>
<u>Financial Statement Major Fund</u>	<u>General Fund</u>
<b>Sources / Inflows of Resources:</b>	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 38,038,900
Differences - Budget to GAAP:	
Budgetary inflows that are not revenues for financial reporting purposes	
Beginning fund balance	(2,640,495)
Financial reporting revenues that are not inflows for budgetary purposes	
Capital reserve earnings	<u>4,631</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 35,403,036</u>
<b>Uses / Outflows of Resources:</b>	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 35,493,910
Differences - Budget to GAAP:	
Budgetary outflows that are not expenditures for financial reporting purposes	
Transfers to other funds	<u>(36,072)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 35,457,838</u>

## NOTE 3 - SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS

The district is required to prepare its financial statements in accordance with accounting principles generally accepted in the United States. Accordingly, the school district is required to disclose its obligations for post-employment benefits. In addition to pensions, these benefits include health insurance paid on behalf of retirees. Guidance for the disclosure required is contained in Governmental Accounting Standards Board Statement No. 45 - "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions" (GASB No. 45). As part of that disclosure the district is required to include the Schedule of Funding Progress, as required supplementary information, for the most recent actuarial valuation and the two preceding valuations.

## **OTHER SUPPLEMENTARY INFORMATION**

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Combining Balance Sheet - Nonmajor Governmental Funds June 30, 2014

	Other Grants	Roof Bond	Total Nonmajor Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ -	\$ -
Investments	-	150,676	150,676
Due from other governments	85,084	-	85,084
Due from other funds	188,850	-	188,850
Total assets	\$ 273,934	\$ 150,676	\$ 424,610
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 365	\$ -	\$ 365
Due to other funds	-	45,732	45,732
Deferred revenue	273,569	-	273,569
Total liabilities	273,934	45,732	319,666
Fund balances:			
Nonspendable	-	-	-
Restricted	-	104,944	104,944
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
Total fund balances	-	104,944	104,944
Total liabilities and fund balances	\$ 273,934	\$ 150,676	\$ 424,610

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2014

	<u>Other Grants</u>	<u>Roof Bond</u>	<u>High School Addition</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Revenues</b>				
Local sources	\$ -	\$ 39	\$ -	\$ 39
Federal sources	85,485	-	-	85,485
Operating transfers in	-	14,056	-	14,056
Other financing sources	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>2,000</u>
Total revenues and other financing sources	<u>87,485</u>	<u>14,095</u>	<u>-</u>	<u>101,580</u>
<b>Expenditures</b>				
Instruction	87,485	-	-	87,485
Operating transfers out	<u>-</u>	<u>-</u>	<u>14,056</u>	<u>14,056</u>
Total expenditures and other financing sources	<u>87,485</u>	<u>-</u>	<u>14,056</u>	<u>101,541</u>
Excess revenue and other financing sources over (under) expenditures and other financing uses	-	14,095	(14,056)	39
Fund balances - beginning of year (As Restated)	<u>-</u>	<u>90,849</u>	<u>14,056</u>	<u>104,905</u>
Fund balances - end of year	<u>\$ -</u>	<u>\$ 104,944</u>	<u>\$ -</u>	<u>\$ 104,944</u>

**FEDERAL AWARDS SUPPLEMENTARY INFORMATION**

# GRZELAK AND COMPANY, P.C.

## Certified Public Accountants

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Members – American Institute of CPA's (AICPA)  
Member – AICPA Government Audit Quality Center (GAQC)  
Member – AICPA Private Company Practice Section (PCPS)  
Members – New Hampshire Society of CPA's

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kearsarge Regional School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Kearsarge Regional School District's basic financial statements, and have issued our report thereon dated November 10, 2014.

#### Internal Control Over Financial Reporting

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Kearsarge Regional School District's financial statements are free from 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*.

## **Purpose of this Report**

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

*Grzelak and Co., P.C.*

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

Laconia, New Hampshire  
November 10, 2014

# GRZELAK AND COMPANY, P.C.

## Certified Public Accountants

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Members – American Institute of CPA's (AICPA)  
Member – AICPA Government Audit Quality Center (GAQC)  
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### **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

#### **Report on Compliance for Each Major Federal Program**

We have audited Kearsarge Regional School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Kearsarge Regional School District's major federal programs for the year ended June 30, 2014. 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.

#### **Management's Responsibility**

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

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

Our responsibility is to express an opinion on compliance for each of Kearsarge Regional School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Kearsarge Regional School District's compliance.

#### **Opinion on Each Major Federal Program**

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

## Report on Internal Control Over Compliance

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

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

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

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

*Grzelak and Co., P.C.*

**GRZELAK & COMPANY, P.C., CPA's**  
Laconia, New Hampshire  
November 10, 2014

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

# KEARSARGE REGIONAL SCHOOL DISTRICT

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

Federal Grantor / Pass-Through Grantor Program or Cluster Title	Federal CFDA #	Pass Through ID #	Expenditures of Federal Awards
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through the NH Department of Education			
<b>CHILD NUTRITION CLUSTER</b>			
School Breakfast Program	10.553		\$ 28,085
National School Lunch Program	10.555		150,751
National School Lunch Program - Commodities	10.555		29,377
			208,213
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through the NH Department of Education			
Title I, Grants to Local Educational Agencies (LEAs) 11-12	84.010	30071	14,192
Title I, Grants to Local Educational Agencies (LEAs) 12-13	84.010	40071	156,830
			171,022
<b>SPECIAL EDUCATION CLUSTER</b>			
Special Education - Grants to States (IDEA, Part B) 12-13	84.027	42613	445,021
Special Education - Preschool Grants (IDEA Preschool) 12-13	84.173	42613	5,361
			450,382
Adult Education - Basic Grants to States 13-14	84.002	47311	38,929
Adult Education - Basic Grants to States 13-14	84.002	47609	5,775
Mathematics and Science Partnerships 12-13	84.366	35191	25,521
Mathematics and Science Partnerships 13-14	84.366	45191	75,000
Improving Teacher Quality State Grants 11-13	84.367	24862	7,863
Improving Teacher Quality State Grants 12-14	84.367	34862	7,736
Improving Teacher Quality State Grants 13-15	84.367	44862	67,528
Improving Teacher Quality State Grants 13-14	84.367	48858	51,700
ARRA - Investing In Innovation Fund - Development Grants 10-11	84.396	ARRA	17,982
ARRA - Investing In Innovation Fund - Development Grants 12-13	84.396	ARRA	22,811
			320,845
			942,249
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ 1,150,462

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, 2014

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, 2014.

### 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, 2014 the District expended funds associated with grants, received surplus commodities and received cost reimbursements for meals served.

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

### 2. RECONCILIATION TO FINANCIAL STATEMENT AMOUNT

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

<b>Schedule of Expenditures of Federal Awards</b>	<u>\$ 1,150,462</u>
 <b>Statement of Revenues, Expenditures, and Changes in Fund Balances</b>	
Major Fund	
Food Service Fund	
Federal Commodities Food Distribution	\$ 29,377
School Breakfast Program	28,085
National School Lunch Program	150,751
Nonmajor Funds	
Grants Fund	<u>942,249</u>
	<u>\$ 1,150,462</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, 2014

## *Financial Statements*

The type of auditor's report issued – Unmodified.

Internal control over financial reporting:

- Material weaknesses identified – No.
- Significant deficiencies identified – No.
- Noncompliance material to financial statements noted? – No.

## *Federal Awards*

Internal control over major programs:

- Material weaknesses identified – No.
- Significant deficiencies identified – No.

Type of auditor's report issued on compliance for major programs - Unqualified.

Are there any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 – No.

Identification of major programs:

- TITLE I CLUSTER  
CFDA # 84.010 - Title I Grants to Local Educational Agencies
- SPECIAL EDUCATION CLUSTER  
CFDA # 84.027 - Special Education - Grants to States (IDEA, Part B)  
CFDA # 84.173 - Special Education - Preschool Grants (IDEA Preschool)

Dollar Threshold used to distinguish between type A and type B Programs - \$300,000.

Auditee qualified as a low-risk auditee – No.