

FRANKLIN SCHOOL DISTRICT

Franklin, New Hampshire

FINANCIAL STATEMENTS

June 30, 2015

FRANKLIN SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

GRZELAK AND COMPANY, P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the School Board
Franklin School District
Franklin, New Hampshire

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United 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. 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 Franklin School District, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Implementation of GASB Statement No. 68

As discussed in Note 1 to the financial statements, in 2015, the Franklin School District adopted new accounting guidance prescribed by GASB 68 for its pension plan – a multiple-employer, cost-sharing, defined benefit pension plan. Because GASB 68 implements new measurement criteria and reporting provisions, significant information has been added to the Government Wide Statements. The Statement of Net Position discloses the Franklin School District's Net Pension Liability and some deferred outflows of resources and deferred inflows of resources related to the Franklin School District's pension plan. The Statement of Activities discloses the adjustment to the Franklin School District's Beginning Net Position. Our opinion is not modified with respect to the matter.

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, schedule of funding progress for other postemployment benefits, schedule of the district's proportionate share of net pension liability, and schedule of district contributions on pages 7 through 19 and 51 through 58 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.

Grzelak and Co., P.C.

GRZELAK & COMPANY, P.C., CPA'S

Laconia, New Hampshire

February 23, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Franklin School District
For the Year Ended June 30, 2015

The Superintendent of Schools and the Business Administrator, as "management" of the Franklin School District (the "District"), a 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, 2015.

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

FINANCIAL HIGHLIGHTS

- The District's total combined net position decreased by \$347,524 or 50% between June 30, 2014 and 2015.
- The District's total combined net position amounted to \$(1,036,986) at June 30, 2015. Net position consisted of: \$7,197,543 invested in capital assets net of related debt; \$262,004 restricted for capital reserves; \$10,311 restricted for the lunch program and an unrestricted balance of \$(8,506,844).
- During the year, the District's expenses were \$347,524 more than the \$14,762,394 in revenues generated from charges for services, operating grants and contributions and general revenues (consisting of the school district assessment and local, state and federal grants and contributions not restricted to specific purposes).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Franklin School District
For the Year Ended June 30, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS

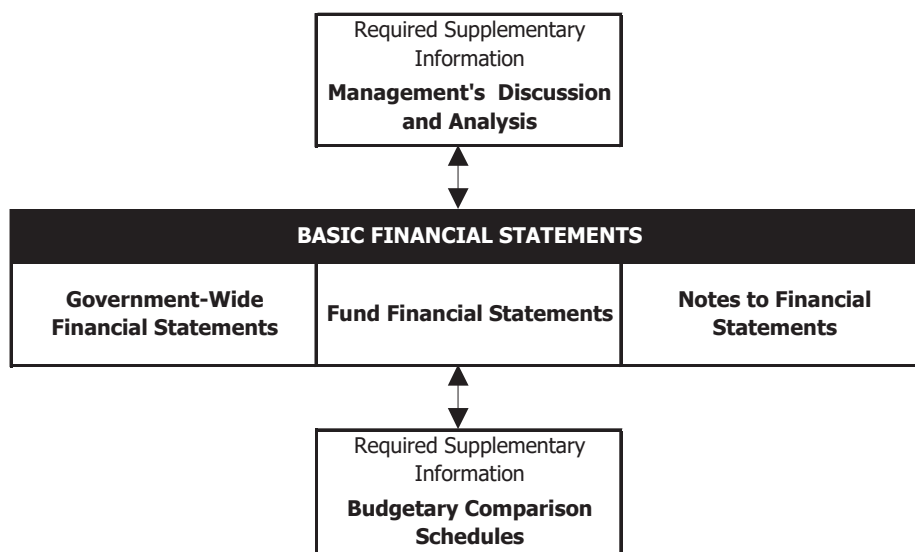
This discussion and analysis is intended to serve as an introduction to the District's annual report, which consists of a series of basic financial statements, notes and related financial or compliance information. The District's financial statements are comprised of five primary sections or components: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

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

**Franklin School District
For the Year Ended June 30, 2015**

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

Exhibit A-2

| | Government-Wide | Fund Statements | |
|---|--|--|--|
| | | Governmental | Fiduciary |
| SCOPE | Entire government (except fiduciary funds) | All activities of the District that are not proprietary or fiduciary | Instances in which the District is the trustee or agent for someone else's resources |
| REQUIRED FINANCIAL STATEMENTS | Statement of Net 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 |
| ACCOUNTING BASIS | Accrual | Modified Accrual | Accrual |
| MEASUREMENT FOCUS | Economic Resources | Current Financial Resources | Economic Resources |
| TYPE OF INFORMATION ASSETS AND DEFERRED OUTFLOWS, AND LIABILITIES AND DEFERRED INFLOWS | 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 |
| TYPE OF INFORMATION REVENUES, EXPENSES, AND EXPENDITURES | All revenues and expenses during the year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid |

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Franklin School District
For the Year Ended June 30, 2015

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 net position. 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 is 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

Franklin School District
For the Year Ended June 30, 2015

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 decreased between June 30, 2014 and 2015 by \$347,524 or 50% to \$(1,036,986).

Exhibit B-1 NET POSITION

| | Governmental Activities | | |
|---|-------------------------|-----------------------|---------------------|
| | 2014 | 2015 | Change |
| Assets | (as restated) | | |
| Current and other assets | \$ 1,406,270 | \$ 1,184,150 | \$ (222,120) |
| Noncurrent assets | <u>10,470,697</u> | <u>10,010,703</u> | <u>(459,994)</u> |
| Total assets | 11,876,967 | 11,194,853 | (682,114) |
| Deferred Outflows of Resources | | | |
| Deferred outflows of resources | <u>655,974</u> | <u>692,906</u> | <u>36,932</u> |
| Total deferred outflows of resources | 655,974 | 692,906 | 36,932 |
| Liabilities | | | |
| Current liabilities | 755,032 | 831,180 | 76,148 |
| Noncurrent liabilities | <u>12,467,371</u> | <u>10,944,751</u> | <u>(1,522,620)</u> |
| Total liabilities | 13,222,403 | 11,775,931 | (1,446,472) |
| Deferred Inflows of Resources | | | |
| Deferred inflows of resources | <u>-</u> | <u>1,148,814</u> | <u>1,148,814</u> |
| Total deferred inflows of resources | - | 1,148,814 | 1,148,814 |
| Net Position | | | |
| Net investment in capital assets | 7,265,432 | 7,197,543 | (67,889) |
| Restricted | 290,350 | 272,315 | (18,035) |
| Unrestricted | <u>(8,245,244)</u> | <u>(8,506,844)</u> | <u>(261,600)</u> |
| Total net position | <u>\$ (689,462)</u> | <u>\$ (1,036,986)</u> | <u>\$ (347,524)</u> |

A portion of the net position is either invested in capital assets or restricted as to the purposes they can be used for.

- The District's investment in capital assets (land and land improvements, buildings, furniture and equipment and technology equipment, net of accumulated depreciation), net of related debt, is the largest component of the total combined net position.
- Restricted net position represents specific fund amounts that are not available for discretionary spending.

Unrestricted net position was a negative \$(8,506,844) at June 30, 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Franklin School District
For the Year Ended June 30, 2015

Change in Net Position

The District's total revenues were \$14,762,394 while total expenses were \$15,109,918, resulting in a decrease in net position of \$347,524.

Exhibit B-2 shows that 23.22%, of the District's total revenues came from the local school district assessment, while 64.30% came from State of New Hampshire sources including state education taxes (collected by and received from the city). Operating grants and contributions provided 5.72% of total revenues, while 5.36% related to charges for services.

Exhibit B-2 SOURCES OF DISTRICT REVENUES

| | Governmental Activities | | | | Change |
|------------------------------------|-------------------------|----------------|----------------------|----------------|------------------|
| | 2014 | | 2015 | | |
| Program Revenues | | | | | |
| Charges for services | \$ 1,074,707 | 7.31% | \$ 791,922 | 5.36% | \$ (282,785) |
| Operating grants and contributions | 651,627 | 4.43% | 844,162 | 5.72% | 192,535 |
| General Revenues | | | | | |
| School district assessment | 3,299,945 | 22.45% | 3,427,275 | 23.22% | 127,330 |
| Local sources | 43,672 | 0.30% | 103,736 | 0.70% | 60,064 |
| State of New Hampshire sources | 9,595,747 | 65.28% | 9,491,529 | 64.30% | (104,218) |
| Federal sources | 33,128 | 0.23% | 103,770 | 0.70% | 70,642 |
| | <u>\$ 14,698,826</u> | <u>100.00%</u> | <u>\$ 14,762,394</u> | <u>100.00%</u> | <u>\$ 63,568</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Franklin School District
For the Year Ended June 30, 2015**

Exhibit B-3 shows that 53.96% of the District's total expenses were for instruction, 35.43% were for support services and 4.13% were for the food service program. Unallocated expenses represented 6.49% of total expenses.

Exhibit B-3 DISTRICT EXPENSES

| Functions / Programs | Governmental Activities | | | | Change |
|----------------------|-------------------------|----------------|----------------------|----------------|-------------------|
| | 2014 | | 2015 | | |
| Instruction | \$ 7,648,535 | 53.44% | \$ 8,152,870 | 53.96% | \$ 504,335 |
| Support services | 5,078,679 | 35.48% | 5,353,955 | 35.43% | 275,276 |
| Food service program | 610,317 | 4.26% | 623,323 | 4.13% | 13,006 |
| Unallocated | | | | | |
| Capital outlay | 1,885 | 0.01% | 67,500 | 0.45% | 65,615 |
| Interest expense | 160,539 | 1.12% | 331,509 | 2.19% | 170,970 |
| Other financing uses | 164,189 | 1.15% | (18,633) | -0.12% | (182,822) |
| Depreciation | 648,672 | 4.53% | 599,394 | 3.97% | (49,278) |
| | <u>\$ 14,312,816</u> | <u>100.00%</u> | <u>\$ 15,109,918</u> | <u>100.00%</u> | <u>\$ 797,102</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS

Franklin School District
For the Year Ended June 30, 2015

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. The net cost reflects the amount funded by general revenues (local and statewide property taxes and general state aid).

Exhibit B-4 TOTAL AND NET COST OF SERVICES

| | 2014 | | 2015 | |
|-----------------------------|------------------------|----------------------|------------------------|----------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| Functions / Programs | | | | |
| Instruction | \$ 7,648,535 | \$ 6,483,855 | \$ 8,152,870 | \$ 7,071,406 |
| Support services | 5,078,679 | 5,078,679 | 5,353,955 | 5,353,955 |
| Food service program | 610,317 | 48,663 | 623,323 | 68,703 |
| Unallocated | | | | |
| Capital outlay | 1,885 | 1,885 | 67,500 | 67,500 |
| Interest expense | 160,539 | 160,539 | 331,509 | 331,509 |
| Other financing uses | 164,189 | 164,189 | (18,633) | (18,633) |
| Depreciation | 648,672 | 648,672 | 599,394 | 599,394 |
| | <u>\$ 14,312,816</u> | <u>\$ 12,586,482</u> | <u>\$ 15,109,918</u> | <u>\$ 13,473,834</u> |

The total cost of all governmental activities this year was \$15,109,918; the total net cost was \$13,473,834. The primary financing for the net cost of activities was as follows:

General Revenues

- The amount that was paid by taxpayers through property taxes was \$4,589,969; which consisted of \$3,427,275 paid in the form of local property taxes and \$1,162,694 paid in the form of property taxes under the State of New Hampshire state-wide education tax system for the annual school district assessment.

Local Sources

- Local sources included \$473 in earnings on investments and \$103,263 in other local revenue.

State Sources

- \$8,146,891 was received from the State of New Hampshire as an "adequacy grant".
- School building aid was received in the amount of \$181,944.

Federal Sources

- Federal sources were received in the amount of \$103,770.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Franklin School District
For the Year Ended June 30, 2015

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

General Fund

The general fund balance decreased \$284,608 during the year from a surplus balance of \$1,046,054 at June 30, 2014 to a \$761,446 fund balance at June 30, 2015. The June 30, 2015 fund balance consisted of \$262,004 restricted for capital reserves; \$250,000 committed by the school board for contingencies, \$145,925 assigned by the school board for encumbrances, and an unassigned fund balance of \$103,517. In accordance with RSA 198:4-b, 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

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 reported a fund balance of \$10,311 as of June 30, 2015 and received and operating subsidy of \$44,244 for the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Franklin School District
For the Year Ended June 30, 2015

GENERAL FUND BUDGETARY HIGHLIGHTS

For the year ended June 30, 2015 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.

Final Versus Original Budget Comparison

In the normal circumstances under the total budget-to-actual basis the original and final budget amounts would be the same. However, the final budget varied from the original budget for the following item:

- Encumbrances carried forward in the amount of \$673,350.

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 \$80,994.
- Actual total outflows, (expenditures or charges to appropriations), were less than the budgeted appropriations by \$418,448.
- 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

Franklin School District
For the Year Ended June 30, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the District had invested \$10,010,703 (\$21,381,179 at cost or estimated cost less accumulated depreciation of \$11,370,476) in a broad range of capital assets, including land and land improvements, buildings, and furniture and equipment as summarized in Exhibit C-1.

This amount represents a net decrease of 4.39% from the prior year. This year's changes are also summarized in Exhibit C-1.

Exhibit C-1 NET CAPITAL ASSETS AND MAJOR ADDITIONS

| | Governmental Activities | | |
|---|-------------------------|---------------|---------|
| Net Capital Assets | 2014 | 2015 | Change |
| Buildings | \$ 19,769,930 | \$ 19,769,930 | 0.00% |
| Vehicles | 32,293 | 32,293 | 200.00% |
| Furniture and equipment | 1,439,556 | 1,578,956 | 9.68% |
| Capital assets, at cost | 21,241,779 | 21,381,179 | 0.66% |
| Accumulated depreciation | 10,771,082 | 11,370,476 | 5.56% |
| Capital assets, net | \$ 10,470,697 | \$ 10,010,703 | -4.39% |
| Increase (Decrease) in Capital Assets, Net | | \$ (459,994) | |
| Changes | | | |
| Furniture and equipment | | \$ 139,400 | |
| Depreciation expense | | (599,394) | |
| | | \$ (459,994) | |

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Franklin School District
For the Year Ended June 30, 2015

Debt

At June 30, 2015, the District had \$10,944,751 of net long-term obligations as summarized in Exhibit C-2.

This amount represents a net decrease of 12.21% from the prior year.

Exhibit C-2 LONG-TERM LIABILITIES

| Long-Term Liabilities | Governmental Activities | | |
|--|-------------------------|-----------------------|----------------|
| | 2014 | 2015 | Change |
| | (as restated) | | |
| General obligation notes | \$ 3,205,265 | \$ 2,813,160 | -12.23% |
| Severance bonus provision | 87,491 | 135,041 | 54.35% |
| OPEB obligation | 659,311 | 810,116 | 22.87% |
| Net pension liability | <u>8,907,409</u> | <u>7,578,539</u> | <u>-14.92%</u> |
| | 12,859,476 | 11,336,856 | -11.84% |
| Less current portion | <u>(392,105)</u> | <u>(392,105)</u> | na |
| | <u>\$ 12,467,371</u> | <u>\$ 10,944,751</u> | <u>-12.21%</u> |
| Increase (Decrease), Net | | <u>\$ (1,522,620)</u> | |
| Significant Changes | | | |
| Principal payment on general obligation debt | | \$ (392,105) | |
| Severance bonus provision change | | 47,550 | |
| OPEB obligation change | | 150,805 | |
| OPEB obligation change | | (1,328,870) | |
| Change in current portion | | - | |
| | | <u>\$ (1,522,620)</u> | |

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

Franklin School District
For the Year Ended June 30, 2015

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

District management and the School Board considered many factors when submitting the fiscal year 2015-2016 budget.

As with every budget season the concerns are providing an adequate education for the students and making budget changes to correspond with the incoming revenues. The School Board and Management considered all aspects while building the 2015-2016 budget.

Overall the increase in the fiscal budget totaled \$168,000. The changes that made up the increase are from the following areas: Increase in Regular Education of \$97,000; increases in Special Education of \$127,000, Vocational Ed increased \$3,000, Athletics was decreased by \$17,000, Student Support Services was a net decrease of \$64,000, Conferences / Workshops was cut by \$20,000, School Administration Services increased \$17,000, Building and Grounds increases by \$55,000, Computer Equipment decreased by \$70,000, Transportation increased \$80,000, and debt Service decreased \$40,000

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. If you have any questions about this report or need additional financial information, contact the District's Business Administrator.

BASIC FINANCIAL STATEMENTS

FRANKLIN SCHOOL DISTRICT

Statement of Net Position June 30, 2015

| | <u>Primary Government Governmental Activities</u> |
|---|---|
| ASSETS | |
| Cash and cash equivalents | \$ 137,237 |
| Receivables, net | 262,004 |
| Due from other governments | 774,526 |
| Inventories | 10,311 |
| Other assets | 72 |
| Capital assets: | |
| Other capital assets, net of accumulated depreciation | <u>10,010,703</u> |
| Total assets | <u>11,194,853</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows of resources | <u>692,906</u> |
| Total deferred outflows of resources | <u>692,906</u> |
| LIABILITIES | |
| Accounts payable | 154,538 |
| Accrued expenses | 54,405 |
| Due to other governments | 224,978 |
| Deferred revenue | 5,154 |
| Current portion of long-term liabilities | 392,105 |
| Bonds payable | 2,421,055 |
| Severance bonus obligations | 135,041 |
| Post employment benefit obligation | 810,116 |
| Net pension liability | <u>7,578,539</u> |
| Total liabilities | <u>11,775,931</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows of resources | <u>1,148,814</u> |
| Total deferred inflows of resources | <u>1,148,814</u> |
| NET POSITION | |
| Net investment in capital assets | 7,197,543 |
| Restricted for: | |
| Capital reserves | 262,004 |
| Lunch program | 10,311 |
| Unrestricted | <u>(8,506,844)</u> |
| Total net position | <u>\$ (1,036,986)</u> |

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

FRANKLIN SCHOOL DISTRICT

Statement of Activities Year Ended June 30, 2015

| Functions / Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|--|-------------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | Primary Government |
| | | | | Governmental Activities |
| Governmental activities: | | | | |
| Instruction | | | | |
| Regular instruction | \$ 5,088,061 | \$ 621,612 | \$ 5,646 | \$ (4,460,803) |
| Special education instruction | 2,743,810 | - | 445,865 | (2,297,945) |
| Vocational instruction | 30,635 | - | 8,341 | (22,294) |
| Other instruction | 290,364 | - | - | (290,364) |
| Support services | | | | |
| Student support services | 1,550,027 | - | - | (1,550,027) |
| Instructional staff services | 217,593 | - | - | (217,593) |
| General administration | 106,787 | - | - | (106,787) |
| Executive administration | 644,568 | - | - | (644,568) |
| School administrative services | 890,814 | - | - | (890,814) |
| Operation and maintenance | 1,253,373 | - | - | (1,253,373) |
| Student transportation | 690,793 | - | - | (690,793) |
| Food service program | 623,323 | 170,310 | 384,310 | (68,703) |
| Interest expense | 331,509 | - | - | (331,509) |
| Capital outlay | 67,500 | - | - | (67,500) |
| Other uses / expenses | (18,633) | - | - | 18,633 |
| Depreciation (unallocated) | 599,394 | - | - | (599,394) |
| Total governmental activities | <u>15,109,918</u> | <u>791,922</u> | <u>844,162</u> | <u>(13,473,834)</u> |
| General revenues: | | | | |
| School district assessment | | | | \$ 3,427,275 |
| Grants and contributions not restricted to specific purposes: | | | | |
| Local sources | | | | 103,263 |
| State of New Hampshire sources | | | | 9,491,529 |
| Federal sources | | | | 103,770 |
| Investment Income | | | | 473 |
| Total general revenues | | | | <u>13,126,310</u> |
| Change in net position | | | | (347,524) |
| Net position - beginning (as restated) | | | | <u>(689,462)</u> |
| Net position - ending | | | | <u><u>\$ (1,036,986)</u></u> |

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

FRANKLIN SCHOOL DISTRICT

**Balance Sheet
Governmental Funds
June 30, 2015**

| | <u>General Fund</u> | <u>Food Service Fund</u> | <u>Total Governmental Funds</u> |
|--------------------------------------|---------------------|------------------------------|---|
| Assets | | | |
| Cash and cash equivalents | \$ 7,144 | \$ 130,093 | \$ 137,237 |
| Held by trustees | 262,004 | - | 262,004 |
| Due from other governments | 329,080 | 445,446 | 774,526 |
| Due from other funds | 613,549 | 44,244 | 657,793 |
| Inventories | - | 10,311 | 10,311 |
| Other assets | - | 72 | 72 |
| Total assets | <u>\$ 1,211,777</u> | <u>\$ 630,166</u> | <u>\$ 1,841,943</u> |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 153,386 | \$ 1,152 | \$ 154,538 |
| Accrued expenses | 27,723 | - | 27,723 |
| Due to other governments | 224,978 | - | 224,978 |
| Due to other funds | 44,244 | 613,549 | 657,793 |
| Deferred revenue | - | 5,154 | 5,154 |
| Total liabilities | <u>450,331</u> | <u>619,855</u> | <u>1,070,186</u> |
| Fund balances: | | | |
| Nonspendable | - | 10,311 | 10,311 |
| Restricted | 262,004 | - | 262,004 |
| Committed | 250,000 | - | 250,000 |
| Assigned | 145,925 | - | 145,925 |
| Unassigned | 103,517 | - | 103,517 |
| Total fund balance | <u>761,446</u> | <u>10,311</u> | <u>771,757</u> |
| Total liabilities and fund balances | <u>\$ 1,211,777</u> | <u>\$ 630,166</u> | <u>\$ 1,841,943</u> |

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

FRANKLIN SCHOOL DISTRICT

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2015

Total Fund Balances - Governmental Funds \$ 771,757

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 | \$ 21,381,179 | |
| Less accumulated depreciation | <u>(11,370,476)</u> | 10,010,703 |

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 | (2,813,160) | |
| Special early termination benefits | (135,041) | |
| OPEB obligation | (810,116) | |
| Net pension liability | <u>(7,578,539)</u> | (11,336,856) |

Deferred inflows and outflows of resources are not current financial sources and uses and therefore are not reported in the governmental funds.

| | | |
|--------------------------------|----------------|-----------|
| Deferred inflows of resources | (1,148,814) | |
| Deferred outflows of resources | <u>692,906</u> | (455,908) |

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.

(26,682)

Total Net Position - Governmental Activities \$ (1,036,986)

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

FRANKLIN SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds Year Ended June 30, 2015

| | General Fund | Food Service Fund | Total Governmental Funds |
|--|---------------------|------------------------------|---|
| Revenues | | | |
| School district assessment | \$ 3,427,275 | \$ - | \$ 3,427,275 |
| Local sources | 724,875 | 170,310 | 895,185 |
| State of New Hampshire sources | 9,679,735 | 8,358 | 9,688,093 |
| Federal sources | 356,336 | 395,032 | 751,368 |
| Investment income | <u>352</u> | <u>121</u> | <u>473</u> |
| Total revenues | <u>14,188,573</u> | <u>573,821</u> | <u>14,762,394</u> |
| Expenditures | | | |
| Current: | | | |
| Instruction | 8,156,640 | - | 8,156,640 |
| Support services | 1,819,071 | - | 1,819,071 |
| General administration | 106,787 | - | 106,787 |
| Executive administration | 3,550,598 | - | 3,550,598 |
| Capital outlay | 67,500 | - | 67,500 |
| Food service program | - | 636,452 | 636,452 |
| Debt service: | | | |
| Principal | 392,105 | - | 392,105 |
| Interest | <u>336,236</u> | <u>-</u> | <u>336,236</u> |
| Total expenditures | <u>14,428,937</u> | <u>636,452</u> | <u>15,065,389</u> |
| Excess (deficiency) of revenues over expenditures | (240,364) | (62,631) | (302,995) |
| Other Financing Sources (Uses) | | | |
| Transfers in | - | 44,244 | 44,244 |
| Transfers out | <u>(44,244)</u> | <u>-</u> | <u>(44,244)</u> |
| Net change in fund balances | (284,608) | (18,387) | (302,995) |
| Fund balances - beginning of year | <u>1,046,054</u> | <u>28,698</u> | <u>1,074,752</u> |
| Fund balances - end of year | <u>\$ 761,446</u> | <u>\$ 10,311</u> | <u>\$ 771,757</u> |

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

FRANKLIN 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, 2015

Total Net Change in Fund Balances - Governmental Funds \$ (302,995)

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 | \$ 139,400 | |
| Depreciation expense | (599,394) | |
| Loss on disposal of assets | <u>-</u> | (459,994) |

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 | 392,105 | |
| Principal on capital leases | <u>-</u> | 392,105 |

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 | | 4,727 |
|--------------------------------------|--|-------|

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.

| | | |
|--------------------------------------|------------------|-----------|
| Early retirement (increase) decrease | (47,550) | |
| OPEB obligation (increase) decrease | (150,805) | |
| Net pension liability | <u>1,328,870</u> | 1,130,515 |

The change in deferred inflows and outflows from the *Schedule of Pension Amounts by Employer* related to the New Hampshire Retirement System Cost-Sharing Employer Defined Benefit Pension Plan are reported against pension expense in the governmental activities.

| | | |
|---------------------------------------|---------------|--------------------|
| Deferred inflows (increase) decrease | (1,148,814) | |
| Deferred outflows increase (decrease) | <u>36,932</u> | <u>(1,111,882)</u> |

Change in Net Position of Governmental Activities \$ (347,524)

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

FRANKLIN SCHOOL DISTRICT

**Statement of Net Position
Fiduciary Funds
June 30, 2015**

| | <u>Student Activities</u> | <u>Total Agency Funds</u> | <u>Total Fiduciary Funds</u> |
|------------------------------------|-------------------------------|-----------------------------------|--------------------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 149,817 | \$ 149,817 | \$ 149,817 |
| Total assets | <u>149,817</u> | <u>149,817</u> | <u>149,817</u> |
| Liabilities | | | |
| Due to student groups | <u>149,817</u> | <u>149,817</u> | <u>149,817</u> |
| Total liabilities | <u>149,817</u> | <u>149,817</u> | <u>149,817</u> |
| Net Position | | | |
| Held in trust for private purposes | <u>-</u> | | <u>-</u> |
| Total net position | <u>\$ -</u> | | <u>\$ -</u> |

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Franklin 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 special-purpose, dependent school district, local government governed by an elected board. The District is included as a department within the general fund of the City of Franklin, New Hampshire, as described below. The City Charter indicates that "the administration of all fiscal, prudential and district affairs of said district shall be vested in the City Council, except such as shall hereinafter be vested in the School Board". In addition "All property of said Town of Franklin, or of the school district of said town, shall be vested in said city, and all debts of said town and said school district shall be considered for all purposes as the debts of said city." These financial statements include the capital assets and debts related to the School District, although the assets and debt are owned by and are the responsibility of the City of Franklin. Trust funds held by the Trustees of the Trust Funds of the City of Franklin for the benefit of the School District are also included in these financial statements.

The District is reported as a department within the general fund of the City of Franklin, New Hampshire. The City has financial accountability for the district since the governing body of the District, (School Board) is elected by the citizens of the City of Franklin and because the City Council has final authority over the authorization of the budget of the District, and is responsible for debt issuances related to the District.

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 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 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.

FRANKLIN SCHOOL DISTRICT

Notes to Basic Financial Statements June 30, 2015

Inventories

For fund financial statements, 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. 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 | Salvage Value % |
|--------------------------------|-----------------------------|---------------------------|--------------------|
| Financed assets | All | 20 | 20% |
| Land or building improvements | \$ 10,000 | 20-40 | 20% - 30% |
| Machinery, equipment and other | \$ 2,500 | 5-20 | 0% |

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.

Severance Bonus Provisions

The District accrued accumulated severance bonus amounts, when earned (or estimated to be earned), by the employee in accordance with applicable bargaining agreements and personnel policies.

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, capital leases and special termination benefits. 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.

Pensions

During the year ended June 30, 2015, the District adopted Governmental Accounting Standards Board Statement No. 68 – *Accounting and Financial Reporting for Pensions*. As a result the District is required to report its proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, pension expense, and information about the fiduciary net position of the New Hampshire Retirement System, (NHRS) a Cost-Sharing Multiple Employer Defined Benefit Pension Plan.

Governmental Fund Equity and Fund Balance Policy

The district 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 (School Board). This would include contractual obligations if existing resources have been committed. Formal action (School Board vote at a public meeting) 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 (School Board), or by and official whom authority has been given (Superintendent of Schools). Such assignments cannot exceed the available fund balance in any particular fund. 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 the unrestricted classifications of, committed, assigned and unassigned fund balances.

The district has not adopted a policy regarding the maintenance of a minimum fund balance. State statute generally requires all unassigned fund balance to be used to reduce the district assessment for the following year.

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 7% of its locally assessed valuation as last equalized by the Commissioner of the New Hampshire Department of Revenue Administration.

For the year ended June 30, 2015, the District had not exceeded its legal debt limit.

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

The District is a member in both the *Workers' Compensation* and *Property/Liability* programs of the *New Hampshire Public Risk Management Exchange (Primex)*. *Primex* is a public entity pooled risk management program under RSA 5-B and RSA 281-A. The policy period is from July 1st to July 1st. Contributions made during the year were \$47,104 and \$50,150 for Property Liability and Workers' Compensation, respectively. A Premium Holiday was issued during the policy period in the amount of \$12,025.

Claims, Judgments and Contingent Liabilities

Grant Programs

The District may participate in 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, 2015, 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.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

| | | |
|----------------------------|----|----------------|
| Statement of net position: | | |
| Cash and investments | \$ | 137,237 |
| Fiduciary funds: | | |
| Cash and investments | | 149,817 |
| | \$ | <u>287,054</u> |

Deposits and investments as of June 30, 2015 consist of the following:

| | | |
|--------------------------------------|----|----------------|
| Cash on hand | \$ | 767 |
| Deposits with financial institutions | | 286,287 |
| Investments | | - |
| | \$ | <u>287,054</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. City Charter mandates that all revenues received by the School District be deposited with the City Finance Officer and all school bills will be paid by the school business office with transfers of funds for the City in the exact amount of the manifest. As a result, the School District generally does not have custody of any significant amounts of bank deposits.

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. Since the City code mandates all School District revenues be deposited with the City, there are no investments maintained by the School District treasurer.

The District did not report any investments as of June 30, 2015.

Concentration of Credit Risk

The District has a formal investment policy that limits the District treasurers' investments to interest bearing checking accounts in banks in New Hampshire. The policy does not limit the amount that may be invested in a single bank. The District did not report any investments as of June 30, 2015.

Interest Rate Risk

The District investment policy limits the treasurer to deposits in an interest bearing checking account with a New Hampshire bank. It does not provide for limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District did not report any investments as of June 30, 2015.

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's investment policy limits deposits to interest bearing checking accounts with New Hampshire banks but does not limit the amount that may be deposited with one bank. As of June 30, 2015, \$379,776 the District's bank balance was covered by FDIC insurance and \$242,979 was exposed to custodial credit risk because it was uninsured and the collateral for the amounts was held by the depository's agent but not in the District's name.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District did not have any investments at year end.

FRANKLIN SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2015

NOTE 4 - INTERFUND BALANCES AND TRANSFERS

Balances

Individual interfund balances at June 30, 2015 were as follows:

| | <u>Due From</u> | <u>Due To</u> |
|-------------------|-------------------|-------------------|
| Major Funds: | | |
| General fund | \$ 613,549 | \$ 44,244 |
| Food service fund | 44,244 | 613,549 |
| | <u>\$ 657,793</u> | <u>\$ 657,793</u> |

Transfers

Individual interfund transfers for the year ended June 30, 2015 were as follows:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|-------------------|-------------------------|--------------------------|
| Major Funds: | | |
| General fund | \$ - | \$ 44,244 |
| Food service fund | 44,244 | - |
| | <u>\$ 44,244</u> | <u>\$ 44,244</u> |

The District may make routine transfers during the year between the general fund and other funds based upon statutory or budgetary authorization.

FRANKLIN SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2015

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES AND PAYABLES

Intergovernmental Receivables

Intergovernmental receivables at June 30, 2015 consisted of the following:

| | <u>General Fund</u> | <u>Food Service Fund</u> |
|-------------------------------|---------------------|--------------------------|
| Local Governments | | |
| SAU #18 | \$ - | \$ 415,769 |
| Hill School District | 240,156 | - |
| Other | 8,545 | - |
| Federal / State Government | | |
| Pass-through grants and other | 80,379 | 29,677 |
| | <u>\$ 329,080</u> | <u>\$ 445,446</u> |

Receivables result from tuition and child nutrition reimbursements and federal (passed-through the State of New Hampshire) reimbursements not received until after year-end. The amounts due from the SAU reflect lunch reimbursements received by the SAU as fiscal agent, and not remitted to the district.

Intergovernmental Payables

The District reported intergovernmental payables at June 30, 2015 as follows:

| | <u>General Fund</u> | <u>Food Service Fund</u> |
|-------------------|---------------------|--------------------------|
| Local Governments | | |
| SAU #18 | \$ 30,000 | \$ - |
| City of Franklin | 194,978 | - |
| State Governments | | |
| New Hampshire | - | - |
| | <u>\$ 224,978</u> | <u>\$ -</u> |

FRANKLIN SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2015

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District for the year ended June 30, 2015 was as follows:

| | Beginning Balance | Additions | Disposals | Ending Balance |
|--|------------------------------|---------------------|------------------|---------------------------|
| Governmental Activities (at cost) | | | | |
| Capital assets not being depreciated: | | | | |
| Land and improvements | \$ - | \$ - | \$ - | \$ - |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | - | - | - | - |
| Buildings | 19,769,930 | - | - | 19,769,930 |
| Vehicles | 32,293 | - | - | 32,293 |
| Furniture and equipment | 1,439,556 | 139,400 | - | 1,578,956 |
| Technology equipment | - | - | - | - |
| | <u>21,241,779</u> | <u>139,400</u> | <u>-</u> | <u>21,381,179</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | - | - | - | - |
| Buildings | 9,613,549 | 510,438 | - | 10,123,987 |
| Vehicles | 9,226 | 4,613 | - | 13,839 |
| Furniture and equipment | 1,148,307 | 84,343 | - | 1,232,650 |
| Technology equipment | - | - | - | - |
| Accumulated depreciation | <u>10,771,082</u> | <u>599,394</u> | <u>-</u> | <u>11,370,476</u> |
| Capital assets being depreciated, net | <u>10,470,697</u> | <u>(459,994)</u> | <u>-</u> | <u>10,010,703</u> |
| Governmental activities capital assets, Net of accumulated depreciation | <u>\$ 10,470,697</u> | <u>\$ (459,994)</u> | <u>\$ -</u> | <u>\$ 10,010,703</u> |

Depreciation expense for the year ended June 30, 2015 (unallocated) \$ 599,394

FRANKLIN SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2015

NOTE 7 - LONG-TERM LIABILITIES

The District, with approval from the City Council, can issue general obligation debt instruments to provide funds for the acquisition and construction of major capital equipment, infrastructure and other facilities. General obligation debt instruments are "direct government obligations" and consequently are a pledge of the full faith and credit of the District. The District may be obligated under certain leases accounted for as capital leases. The leased assets are accounted for as capital assets and capital lease liabilities in the government-wide financial statements. In the governmental fund financial statements the lease is recorded as an expenditure and other financing source in the year executed; annual lease payments are recorded as expenditures when paid. Other long-term obligations include compensated absences and early retirement obligations.

A summary of long-term liabilities outstanding at June 30, 2015 is as follows:

| | General Obligation Notes | Severance Bonus Provision | OPEB Obligation | Net Pension Liability | Total |
|--------------------|---|--|----------------------------|----------------------------------|----------------------|
| | | | | (as restated) | |
| Beginning balance | \$ 3,205,265 | \$ 87,491 | \$ 659,311 | \$ 8,907,409 | \$ 12,859,476 |
| Additions | - | 47,550 | 150,805 | - | 198,355 |
| Reductions | (392,105) | - | - | (1,328,870) | (1,720,975) |
| Ending balance | <u>2,813,160</u> | <u>135,041</u> | <u>810,116</u> | <u>7,578,539</u> | <u>11,336,856</u> |
| Current portion | 392,105 | - | - | - | 392,105 |
| Noncurrent portion | <u>2,421,055</u> | <u>135,041</u> | <u>810,116</u> | <u>7,578,539</u> | <u>10,944,751</u> |
| | <u>\$ 2,813,160</u> | <u>\$ 135,041</u> | <u>\$ 810,116</u> | <u>\$ 7,578,539</u> | <u>\$ 11,336,856</u> |

Long-term liabilities outstanding at June 30, 2015 consisted of the following:

| | Issue Year | Interest Rate | Maturity Date | Original Amount of Issue | Amount Outstanding 6/30/15 |
|------------------------------------|-------------------|--------------------------|--------------------------|---|---|
| General Obligation Bonds | | | | | |
| School Renovation Bond | 2000 | 4.50% | 2020 | \$ 5,010,376 | \$ 1,250,000 |
| School Renovation Bond | 2009 | 4.29% | 2026 | 2,415,789 | <u>1,563,160</u> |
| | | | | | <u>2,813,160</u> |
| Other Long-Term Obligations | | | | | |
| Severance Bonus Provision | | | | | 135,041 |
| OPEB Obligation | | | | | 810,116 |
| Net Pension Liability | | | | | <u>7,578,539</u> |
| | | | | | <u>8,523,696</u> |
| | | | | | <u>\$ 11,336,856</u> |

FRANKLIN SCHOOL DISTRICT

Notes to Basic Financial Statements June 30, 2015

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

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|---------------------|-------------------|---------------------|
| 2016 | \$ 392,105 | \$ 124,599 | \$ 516,704 |
| 2017 | 392,105 | 105,375 | 497,480 |
| 2018 | 392,105 | 86,155 | 478,260 |
| 2019 | 392,105 | 66,934 | 459,039 |
| 2020 | 392,105 | 47,712 | 439,817 |
| After | <u>852,635</u> | <u>166,589</u> | <u>1,019,224</u> |
| | <u>\$ 2,813,160</u> | <u>\$ 597,364</u> | <u>\$ 3,410,524</u> |

NOTE 8 - PENSION PLAN

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

The System is funded by contributions from both the employees and the District. Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature while the employer contribution rates are determined by the System Board of Trustees based on an actuarial valuation. Plan members are required to contribute 5.0% of their covered salary. The District's contribution rates for the year ended June 30, 2015 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, 2015, 2014, and 2013 were \$801,186, \$757,964, and \$627,592, respectively, equal to the required contributions for each year.

NOTE 9 – PROPORTIONATE SHARE OF NET PENSION LIABILITY

The District implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense information about the fiduciary net position of the New Hampshire Retirement System Cost-Sharing Multiple Employer Defined Benefit Pension Plan (NHRS) and additions to/deductions from NHRS's fiduciary net position have been determined on the same basis as they are reported by NHRS.

General Information about the Pension Plan

Plan description. The New Hampshire Retirement System (NHRS) is a public employee retirement system that administers one cost-sharing multiple-employer defined benefit pension plan (Pension Plan), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans* – an amendment of GASB Statement No. 25.

The Pension Plan was established in 1967 by RSA 100-A: 2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The Pension Plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers with in the State are eligible and required to participate in the Pension Plan.

The Pension Plan is divided into two member groups. State and local employees and teachers belong to Group I. Police and firefighters belong to Group II. All assets are held in a single trust and are available to pay retirement benefits to all members. Benefits available to each group are summarized below.

Group I members at age 60 or 65 (for members who commence service after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final salary for the highest of either three or five years, depending on when their service commenced. The yearly pension amount is 1/60 or 1.667% of average final compensation (AFC), multiplied by years of creditable service. At

age 65, the yearly pension amount is recalculated at 1/66 or 1.515% of AFC multiplied by years of creditable service.

Group II members who are 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have a nonvested status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC, times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the benefit commencement date precedes the month after which the member attains 52.5 years of age by $\frac{1}{4}$ of 1% or age 60.

Members of both groups may qualify for vested deferred allowances, disability allowances and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

Contributions. By Statute, the Board of Trustees of the System is responsible for the certification of employer contribution rates, which are determined through the preparation of biennial valuation of the System's assets by the System's actuary using the entry age normal cost method.

The employer contributions used in the schedules of employer allocations as of and for the years ended June 30, 2014 and 2013 are a component of total employer contributions presented in the System's financial statements for the corresponding periods.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2015, the District reported a liability of \$7,578,539 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating members, actuarially determined. At June 30, 2014, the District's proportion was 0.20190132 percent, which was a decrease of 0.00506558 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$474,959. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

FRANKLIN SCHOOL DISTRICT

Notes to Basic Financial Statements June 30, 2015

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual experience | \$ - | \$ - |
| Changes of assumptions | - | - |
| Net differences between projected and actual earnings on pension plan investments | - | 969,680 |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | - | 179,134 |
| Employer contributions subsequent to the measurement date | 692,906 | - |
| Total | \$ 692,906 | \$ 1,148,814 |

\$692,906 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: | Amount |
|---------------------|---------------------|
| 2016 | \$ (242,420) |
| 2017 | (242,420) |
| 2018 | (242,420) |
| 2019 | (242,420) |
| 2020 | - |
| Thereafter | - |
| Total | \$ (969,680) |

Actuarial assumptions. The collective pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2013, using the following actuarial assumptions which, accordingly, apply to both 2014 and 2013 measurements:

| | |
|---------------------------|--|
| Inflation | 3.00% |
| Salary increases | 3.75 - 5.8% average, including inflation |
| Investment rate of return | 7.75%, net of pension plan investment expense, including inflation |

Mortality rates were based on the RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2005–June 30, 2010.

FRANKLIN SCHOOL DISTRICT

Notes to Basic Financial Statements June 30, 2015

The long-term expected rate of return on pension plan investments was selected from a best-estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. Following is a table presenting target allocations and long-term rates of return for 2014 and 2013:

| Asset Class | Target Allocation | Weighted average long-term expected real rate of return | |
|---------------------------------|-------------------|---|--------|
| | | 2014 | 2013 |
| Large Cap Equities | 22.50% | 3.25% | 3.75% |
| Small /Mid Cap Equities | 7.50% | 3.25% | 4.00% |
| Total domestic equity | 30.00% | | |
| Int'l Equities (unhedged) | 13.00% | 4.25% | 4.75% |
| Emerging Int'l Equities | 7.00% | 6.50% | 6.75% |
| Total international equity | 20.00% | | |
| Core Bonds | 18.00% | -0.47% | -0.96% |
| High-Yield Bonds | 1.50% | 1.50% | 2.00% |
| Global Bonds (unhedged) | 5.00% | -1.75% | -2.25% |
| Emerging Market Debt (external) | 0.50% | 2.00% | 1.00% |
| Total fixed income | 25.00% | | |
| Private Equity | 5.00% | 5.75% | 6.00% |
| Private Debt | 5.00% | 5.00% | 5.50% |
| Real Estate | 10.00% | 3.25% | 3.00% |
| Opportunistic | 5.00% | 2.50% | 2.63% |
| Total alternative investments | 25.00% | | |
| Total | 100.00% | | |

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the Pension Plan's actuarial funding policy and as required by RSA 100-A:16. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefits payments to determine the collective total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

FRANKLIN SCHOOL DISTRICT

Notes to Basic Financial Statements June 30, 2015

| | 1% Decrease to 6.75% | Current single rate assumption 7.75% | 1% Increase to 8.75% |
|--|-------------------------------------|---|---------------------------------|
| Employer's proportionate share of the net pension liability: | | | |
| June 30, 2014 | \$ 9,982,168 | \$ 7,578,539 | \$ 5,550,717 |
| June 30, 2013 | \$ 11,419,486 | \$ 8,907,409 | \$ 6,795,773 |

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued NHRS financial report.

Payables to the pension plan

The Employer reported payables to the defined benefit pension plan for regular monthly contributions in the amount of \$0 as of June 30, 2015.

Changes of assumptions. The change in assumptions about future economic or demographic factors or other inputs is amortized over the average of the expected remaining service life of active and inactive members, which is 5.6076 years in 2014. The first year of amortizations is recognized as pension expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources. The collective amount of change in assumptions for the year ended June 30, 2014 is \$0.

NOTE 10 - JOINT VENTURE

The District is a member of a joint venture, School Administrative Unit #18, (SAU). The District has an ongoing financial responsibility to fund the annual operations of the SAU along with the other members of the SAU. The SAU administers the operations of the member districts on a shared fee arrangement calculated under a cost allocation formula which is based on equalized property value and average daily enrollment of the member districts. The SAU does not accumulated financial resources and maintains minimal net position. The member districts and their respective financial responsibility to the SAU for the year ended June 30, 2015 are as follows:

| Member School Districts | SAU ASSESSMENT | |
|--------------------------------|-----------------------|-------------------|
| | % | Amount |
| Franklin | 88.99% | \$ 644,568 |
| Hill | 11.01% | 79,712 |
| | <u>100.00%</u> | <u>\$ 724,280</u> |

The financial statements of School Administrative Unit #18 are available for public review, by request, at the SAU Office on 119 Central Street, Franklin, NH 03235.

NOTE 11 - COLLECTIVE BARGAINING AGREEMENTS

The District normally negotiates long-term agreements with qualifying employee groups through a formal collective bargaining process. The City Council 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 12 – OTHER POST-EMPLOYMENT BENEFITS (OPEB’s) – GASB 45

The required actuarial calculation of the districts contribution for the implicit rate subsidy afforded its retirees is included in the actuarial report prepared for the City of Franklin (Primary Government), in which, the School District is reported as a department within the general fund of the City.

Following is footnote information related to the School District, (please see the City of Franklin's financial statements for the complete footnote related to the Other Postemployment Benefits);

The following table shows the dependent school district's components of the annual OPEB cost for the year, and the net OPEB obligation:

| | For the Year Ended June 30, <u>2015</u> |
|---|---|
| Annual required contribution (ARC) | \$ 256,378 |
| Interest on Net OPEB | 26,372 |
| Less: Adjustment to ARC | <u>(38,133)</u> |
| Annual OPEB cost | 244,617 |
| Contributions made | <u>(93,812)</u> |
| Increase in net OPEB obligation | 150,805 |
| Net OPEB Obligation - beginning of year | <u>659,311</u> |
| Net OPEB Obligation - end of year | <u>\$ 810,116</u> |

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

| Fiscal Year Ending | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-----------------------|---------------------|---|------------------------|
| June 30, 2015 | \$ 244,617 | 38.4% | \$ 810,116 |

FRANKLIN SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2015

NOTE 13 - 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>Total Governmental Funds</u> |
|------------------|---------------------|------------------------------|---|
| Nonspendable: | | | |
| Inventories | \$ - | \$ 10,311 | \$ 10,311 |
| Restricted: | | | |
| Capital reserves | 262,004 | - | 262,004 |
| Committed: | | | |
| Assigned: | | | |
| Encumbrances | 145,925 | - | 145,925 |
| Unassigned: | 103,517 | - | 103,517 |
| | <u>\$ 761,446</u> | <u>\$ 10,311</u> | <u>\$ 771,757</u> |

NOTE 14 – SUBSEQUENT EVENT

Subsequent Year Fund Balance Reserve for Contingent Obligations

For the year ended June 30, 2015, the District determined that grant expenditures administered by School Administrative Unit #18, on behalf of grant program services and costs for the benefit of the District for years prior to June 30, 2012, were over-expended by an estimated \$250,000. The over-expenditure was absorbed by the General Fund of the School Administrative Unit, however, management has estimated that the District would likely reimburse the School Administrative Unit directly for the amount of the over-expenditures or indirectly via the annual School Administrative Unit assessment. As a result, the District has reserved \$250,000 in available fund balance pending resolution.

NOTE 15 - RESTATEMENT OF NET POSITION

Implementation of GASB 68 results in the restatement of the government-wide net position as follows:

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Net position as of July 1, 2014 | \$ 7,561,973 |
| Proportionate share of net pension liabilities of the NHRS | (8,907,409) |
| Deferred outflows - 2014 employer contributions after measurement date | <u>655,974</u> |
| Net position as of July 1, 2014 - Restated | <u>\$ (689,462)</u> |

REQUIRED SUPPLEMENTARY INFORMATION

FRANKLIN SCHOOL DISTRICT

Budgetary Comparison Schedule - General Fund Year Ended June 30, 2015

| | Original Budget | Final Budget | Actual | Variance |
|---|--------------------|-------------------|-------------------|-------------------|
| Budgetary Fund Balance - Beginning | \$ - | \$ 673,350 | \$ 784,402 | \$ 111,052 |
| Resources (inflows): | | | | |
| School district assessment | | | | |
| Local school tax | 3,427,275 | 3,427,275 | 3,427,275 | - |
| Local sources | | | | |
| Tuition | 712,316 | 712,316 | 621,612 | (90,704) |
| Earnings on investments | 100 | 100 | - | (100) |
| Student activities | 7,500 | 7,500 | 6,698 | (802) |
| Other | 132,593 | 132,593 | 96,565 | (36,028) |
| State of New Hampshire sources | | | | |
| School building aid | 181,944 | 181,944 | 181,944 | - |
| Catastrophic aid | 156,749 | 156,749 | 174,219 | 17,470 |
| Vocational aid | 7,000 | 7,000 | 8,341 | 1,341 |
| Other state sources | - | - | 5,646 | 5,646 |
| Adequacy grant | 8,146,891 | 8,146,891 | 8,146,891 | - |
| State education tax | 1,162,694 | 1,162,694 | 1,162,694 | - |
| Federal sources | | | | |
| Medicaid distribution | 214,717 | 214,717 | 271,646 | 56,929 |
| Other | 68,500 | 68,500 | 84,690 | 16,190 |
| Amounts available for appropriation | <u>14,218,279</u> | <u>14,891,629</u> | <u>14,972,623</u> | <u>80,994</u> |
| Charges to appropriations (outflows): | | | | |
| Instruction | | | | |
| Regular instruction | 5,052,983 | 5,059,481 | 5,091,231 | (31,750) |
| Special education instruction | 2,814,561 | 2,922,515 | 2,744,410 | 178,105 |
| Vocational instruction | 76,044 | 93,653 | 30,635 | 63,018 |
| Other instruction | 294,540 | 305,608 | 270,168 | 35,440 |
| Adult and community programs | 20,782 | 20,782 | 20,196 | 586 |
| Support services | | | | |
| Student support services | 1,476,617 | 1,486,472 | 1,490,889 | (4,417) |
| Instructional staff services | 343,734 | 374,160 | 328,182 | 45,978 |
| General administration | | | | |
| School board contingency | - | 250,000 | - | 250,000 |
| Other school board | 59,662 | 59,662 | 106,787 | (47,125) |
| Executive administration | | | | |
| SAU management services | 644,568 | 644,568 | 644,568 | - |
| School administrative services | 928,489 | 928,647 | 890,814 | 37,833 |
| Operation and maintenance | 1,166,016 | 1,370,906 | 1,261,630 | 109,276 |
| Student transportation | 691,146 | 726,038 | 690,793 | 35,245 |
| Support services | 68,568 | 68,568 | 62,793 | 5,775 |
| Capital outlay | | | | |
| Various | - | - | 67,500 | (67,500) |
| Debt service | | | | |
| Debt service principal | 435,250 | 435,250 | 392,105 | 43,145 |
| Debt service interest | 145,319 | 145,319 | 143,678 | 1,641 |
| Other debt service charges | - | - | 192,558 | (192,558) |
| Operating transfers out | | | | |
| Special revenue funds | - | - | 44,244 | (44,244) |
| Total charges to appropriations | <u>14,218,279</u> | <u>14,891,629</u> | <u>14,473,181</u> | <u>418,448</u> |
| Budgetary Fund Balance - Ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 499,442</u> | <u>\$ 499,442</u> |

See the accompanying notes to the required supplementary information.

FRANKLIN SCHOOL DISTRICT

Schedule of Funding Progress for Other Postemployment Benefits Year Ended June 30, 2015

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrual Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Estimated Covered Payroll | UAAAL as a Percentage of Covered Payroll (AAL) |
|---|--|--|--------------------------------|-------------------------|--|---|
| July 1, 2013 | \$ - | \$ 1,940,983 | \$ 1,940,983 | NA | \$ 6,948,083 | 27.94% |

See the accompanying notes to the required supplementary information.

FRANKLIN SCHOOL DISTRICT

Schedule of the District's Proportionate Share of NHRS Net Pension Liability Year Ended June 30, 2015

| | <u>2014</u> | | <u>2015</u> |
|---|--------------|----|-------------|
| District's proportion of the net pension liability (asset) | 0.20696690% | | 0.20190132% |
| District's proportionate share of the net pension liability (asset) | \$ 8,907,409 | \$ | 7,578,539 |
| District's covered-employee payroll | \$ 5,787,685 | \$ | 5,633,965 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 153.90% | | 134.52% |
| Plan fiduciary net position as a percentage of the total pension liability | 59.81% | | 66.32% |

See the accompanying notes to the required supplementary information.

FRANKLIN SCHOOL DISTRICT

Schedule of District Contributions Year Ended June 30, 2015

| | <u>2014</u> | <u>2015</u> |
|---|------------------|--------------|
| Statutorily required pension contribution | \$ 655,974 | \$ 692,906 |
| Contributions reported by the PLAN | <u>(655,015)</u> | <u>NA</u> |
| Contribution (deficiency) excess | <u>\$ 959</u> | <u>NA</u> |
| District's covered-employee payroll | \$ 5,633,965 | \$ 5,946,769 |
| Contributions as a percentage of covered-employee payroll | 11.64% | 11.65% |

See the accompanying notes to the required supplementary information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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 approved by the City Council. Subsequent regulatory reviews by departments of the State of New Hampshire are made of the budgetary process, 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, a balanced District budget is achieved in accordance with State statute (the "original" budget). The original budget is the first complete, legally appropriated budget adjusted for appropriate changes occurring *before* the beginning of the year.

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. 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 an assignment of fund balance in governmental funds and are carried forward to supplement appropriations of the subsequent 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 commitment 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.

FRANKLIN SCHOOL DISTRICT

Notes to Required Supplementary Information
June 30, 2015

NOTE 2 - EXPLANATION OF BUDGETARY TO GAAP DIFFERENCES

Basis and Timing Differences

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

| <u>Budgetary Fund</u> | <u>General Fund</u> |
|---|----------------------|
| <u>Financial Statement Major Fund</u> | <u>General Fund</u> |
| Sources / Inflows of Resources: | |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule | \$ 14,972,623 |
| Differences - Budget to GAAP: | |
| Budgetary inflows that are not revenues for financial reporting purposes | |
| Beginning fund (balance) deficit | (784,402) |
| Revenues for financial reporting that are not inflows for budgetary purposes | |
| Earnings on capital reserve investments | <u>352</u> |
| Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds | <u>\$ 14,188,573</u> |
| Uses / Outflows of Resources: | |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule | \$ 14,473,181 |
| Differences - Budget to GAAP: | |
| Expenditures for financial reporting purposes that are not budgetary outflows | |
| Transfer to capital reserves | - |
| Budgetary outflows that are not expenditures for financial reporting purposes | |
| Transfers to other funds | <u>(44,244)</u> |
| Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds | <u>\$ 14,428,937</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 as required supplementary information the Schedule of Funding Progress for the most recent actuarial valuation and the two preceding valuations.

NOTE 4 – GASB 68 REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES

In accordance with GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions*, the district is required to disclose historical data for each of the prior ten years within the following schedules:

- **Schedule of the District’s Proportionate Share of Net Pension Liability**
- **Schedule of District Contributions**

The information presented in the *Schedule of the District’s Proportionate Share of Net Pension Liability* is determined as of the measurement date of the collective net pension liability.

The information presented in the *Schedule of District Contributions* is determined as of the employer’s most recent fiscal year-end.

GASB Statement 68 was implemented during the year ended June 30, 2015, therefore, only the current year’s information is available for presentation. Subsequent year’s information will be added as it becomes available until the ten year requirement is met.

OTHER SUPPLEMENTARY INFORMATION