

SHAKER REGIONAL SCHOOL DISTRICT
Belmont and Canterbury, New Hampshire

FINANCIAL STATEMENTS

June 30, 2004

SHAKER REGIONAL SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

GRZELAK AND COMPANY, P.C.

Certified Public Accountants

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

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

INDEPENDENT AUDITOR'S REPORT

To the School Board
Shaker Regional School District
Belmont, New Hampshire

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Shaker Regional School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Shaker Regional School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Shaker Regional School District as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 27, 2005, on our consideration of the Shaker Regional School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4-19 and 44-47 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Shaker Regional School District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Shaker Regional School District. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Grzelak and Co., P.C.

GRZELAK AND COMPANY, P.C., CPA's
Laconia, New Hampshire
June 27, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Superintendent of Schools and the Business Administrator, as "management" of the Shaker Regional School District (the "District"), a K-12 local education authority located in the Counties of Belknap and 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, 2004. 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 assets increased by \$582,183 or 10.19% between June 30, 2003 and 2004.
- The District's total combined net assets amounted to \$6,300,063 at June 30, 2004. Net assets consisted of \$6,561,329 invested in capital assets net of related debt; restricted \$308,842 of other nonmajor funds for purposes of each established fund; and an unrestricted negative net asset balance of (\$570,108).
- The District has a \$760,412 liability for special termination benefits obligations that, under GASB 34, reduces net assets. In essence, the negative unrestricted net asset balance of the District is primarily the result of the recording of this early retirement obligation. This does not mean that the District has this entire amount as a payment requirement for next year; rather, only \$27,099 of these obligations is due to be paid during the fiscal year July 1, 2004 to June 30, 2005.
- The District's net long-term liabilities, consisting of general obligation bonds, compensated absences and special termination benefits, decreased by (\$527,753) during the year ended June 30, 2004.
- During the year, the District's expenses were \$582,183 less than the \$14,808,541 in revenues generated for 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).
- In March of 1997 voters authorized the establishment of the School Facilities and Grounds Maintenance Expendable Trust Fund. In March of 2004 voters authorized the transfer of up to \$100,000 in that fund from the June 30, 2004 year-end undesignated fund balance, if available. The \$100,000 has been reserved from the June 30, 2004 year-end fund balance and will be disbursed to the School Facilities and Grounds Maintenance Expendable Trust Fund, which in accordance with State statute, is held by the Trustees of Trust Funds of the Town of Belmont.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

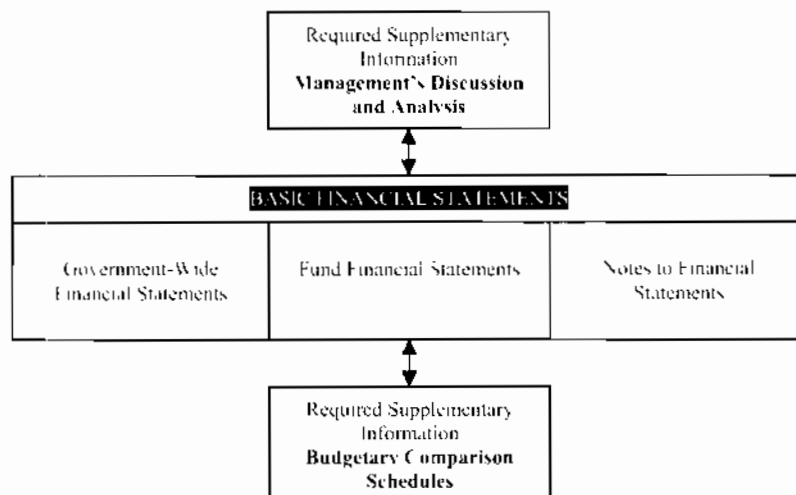
This discussion and analysis is intended to serve as an introduction to the District's annual report, which consists of a series of basic financial statements, notes and related financial or compliance information. The District's financial statements are comprised of six primary sections or components: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

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

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

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

Exhibit A-1



MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Exhibit A-2

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

District Wide Financial Statements:

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

- Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating, respectively.
- In order to assess the overall health of the District other non-financial 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 other 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiduciary Funds -- The District is the trustee or agent (fiduciary) for private purpose trust funds and agency (student activities) funds. It is responsible as the fiduciary for ensuring that these funds are used only for the intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these funds from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED FINANCIAL INFORMATION AND ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

Exhibit B-1 shows the composition of the District's total combined net assets, which increased between June 30, 2003 and 2004 by \$582,183 or 10.19% to \$6,300,063.

Exhibit B-1 NET ASSETS

	Governmental Activities		
	<u>2003</u>	<u>2004</u>	<u>Change</u>
Assets			
Current and other assets	\$ 1,077,127	\$ 1,246,669	\$ 169,542
Noncurrent assets	<u>11,391,748</u>	<u>11,186,329</u>	<u>(205,419)</u>
Total assets	<u>12,468,875</u>	<u>12,432,998</u>	<u>(35,877)</u>
Liabilities			
Current liabilities	1,489,929	1,399,622	(90,307)
Noncurrent liabilities	<u>5,261,066</u>	<u>4,733,313</u>	<u>(527,753)</u>
Total liabilities	<u>6,750,995</u>	<u>6,132,935</u>	<u>(618,060)</u>
Net Assets			
Investment in capital assets, net of related debt	6,141,748	6,561,329	419,581
Restricted	173,318	308,842	135,524
Unrestricted	<u>(597,186)</u>	<u>(570,108)</u>	<u>27,078</u>
Total net assets	<u>\$ 5,717,880</u>	<u>\$ 6,300,063</u>	<u>\$ 582,183</u>

A portion of the net assets are 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, construction in progress, buildings, furniture and equipment and technology equipment, net of accumulated depreciation), net of related debt, is the largest component of the total combined net assets.
- Restricted net assets represent capital reserves and specific fund net asset amounts that are not available for discretionary spending.

Unrestricted net assets is a negative of \$570,108; however that does not mean that the District has a significant payment requirement for next year. Rather, it is the result of having long-term commitments that are more than currently available resources. This is primarily due to the recording of the District's \$760,412 long-term liability for special termination benefit obligations under the GASB 34 financial reporting model, of which only \$27,099 is due to be paid in the next fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Change in Net Assets

The District's total revenues were \$14,808,541 while total expenses were \$14,226,358 resulting in an increase in net assets of \$582,183.

Revenues

Exhibit B-2 shows that a significant portion, 90.61% and 91.52% for the fiscal years ended June 30, 2004 and 2003, respectively came from sources that are primarily derived from local and state-wide property taxes and other state aid programs. Significant increases or decreases in the percentage of total revenues or percentages and amounts over or under the prior year revenue amounts for the District's revenue categories are as follows:

- School district assessment, 46.19% and 40.66% for the fiscal years ended June 30, 2004 and 2003, respectively, an increase in the percentage of total revenues of only 5.53% but an increase of 16.13% (\$949,751) over the prior year.
- State of New Hampshire source intergovernmental revenues, 44.42% and 50.86% for the fiscal years ended June 30, 2004 and 2003, respectively, a decrease in the percentage of total revenues of 6.44% but a decrease of 10.71% (\$788,884) from the prior year.
- Operating grants and contributions, 5.88% and 5.14% for the fiscal years ended June 30, 2004 and 2003, respectively, a decrease in the percentage of total revenues of 0.74% but an increase of 16.96% (\$126,341) over the prior year.

Exhibit B-2 SOURCES OF DISTRICT REVENUES

	Governmental Activities					
	Year Ended June 30, 2003		Year Ended June 30, 2004		Change	
Program Revenues						
Charges for services	\$ 383,506	2.65%	\$ 395,475	2.67%	\$ 11,969	3.12%
Operating grants and contributions	744,972	5.14%	871,313	5.88%	126,341	16.96%
General Revenues						
School district assessment	5,889,606	40.66%	6,839,357	46.19%	949,751	16.13%
Local sources	38,016	0.26%	20,826	0.14%	(17,190)	-45.22%
State of New Hampshire sources	7,366,458	50.86%	6,577,574	44.42%	(788,884)	-10.71%
Federal sources	61,788	0.43%	103,996	0.70%	42,208	68.31%
	<u>\$ 14,484,346</u>	<u>100.00%</u>	<u>\$ 14,808,541</u>	<u>100.00%</u>	<u>\$ 324,195</u>	<u>2.24%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Expenses

Exhibit B-3 shows that a significant portion, 92.36% and 92.03% for the fiscal years ended June 30, 2004 and 2003, respectively, of the District's total expenses were for instructional and support services.

Significant increases or decreases in the percentage of total expenses or percentages and amounts over or under the prior year expense amounts for the District's expense categories are as follows:

- Instruction expenses, 59.90% and 59.02% for the fiscal years ended June 30, 2004 and 2003, respectively, an increase in the percentage of total expenses of only 0.88% but an increase of 2.56% (\$212,459) over the prior year.
- Unallocated interest expense, 1.64% and 1.89% for the fiscal years ended June 30, 2004 and 2003, respectively, did not significantly decrease in the percentage of total expenses, however interest expense decreased by 12.59% (\$33,583) from the prior year.

Exhibit B-3 DISTRICT EXPENSES

Functions / Programs	Governmental Activities					
	Year Ended		Year Ended		Change	
	June 30, 2003		June 30, 2004			
Instruction	\$ 8,309,466	59.02%	\$ 8,521,925	59.90%	\$ 212,459	2.56%
Support services	4,647,094	33.01%	4,618,256	32.46%	(28,838)	-0.62%
Food service program	540,537	3.84%	523,176	3.68%	(17,361)	-3.21%
Unallocated						
Interest	766,726	1.89%	233,143	1.64%	(33,583)	-12.59%
Depreciation	315,101	2.24%	329,858	2.32%	14,757	0.00%
	<u>\$ 14,078,924</u>	<u>100.00%</u>	<u>\$ 14,226,358</u>	<u>100.00%</u>	<u>\$ 147,434</u>	<u>1.05%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

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

Exhibit B-4 TOTAL AND NET COST OF SERVICES

	Total Cost of Services		Net Cost of Services	
Functions / Programs				
Instruction	\$ 8,521,925	59.90%	\$ 7,811,811	60.28%
Support services	4,618,256	32.46%	4,618,256	35.64%
Food service program	523,176	3.68%	(33,498)	-0.26%
Unallocated				
Interest	233,143	1.64%	233,143	1.80%
Depreciation	329,858	2.32%	329,858	2.55%
	\$ 14,226,358	100.00%	\$ 12,959,570	100.00%

The total cost of all governmental activities was \$14,226,358; the total net cost was \$12,959,570. The primary financing for these activities of the District was as follows:

Property taxes

- The amount that was paid by taxpayers through property taxes was \$9,531,637; which consisted of \$6,839,357 paid in the form of local property taxes and \$2,692,280 paid in the form of property taxes under the State of New Hampshire state-wide education tax system for the annual school district assessment.
- An additional amount of \$3,537,157 was received from the State of New Hampshire under the "adequacy grant" provisions of the State's educational funding system, which in addition to other State funding sources includes state-wide property taxes collected from other local governments.

Charges for services

- Tuition was received in the amount of \$16,315.
- Food service revenues of \$556,674 consisted of food service sales in the amount of \$379,160, federal and state food nutrition program operating contributions (free and reduced lunch reimbursements and commodities) of \$177,514.

Operating Grants and Contributions

- Instruction grants in the amount of \$693,799.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

General Fund

The total general fund balance increased \$114,648 during the year from a fund balance of \$178,381 at June 30, 2003 to a \$293,029 fund balance at June 30, 2004. This was primarily attributable to a budgetary basis revenues actual in excess of estimated in the amount of \$73,195, as well as appropriations actual less than budgeted by \$219,834. The June 30, 2004 fund balance consisted of \$100,000 reserved by District vote for the School Facilities and Grounds Maintenance Expendable Trust Fund, \$42,944 reserved for contract encumbrances and an unreserved, undesignated fund balance in the amount of \$150,085. State law mandates that unreserved, undesignated fund balance be used to reduce the school district assessment in the subsequent year.

Major Special Revenue Funds

Capital Reserve Fund

Expendable capital and maintenance reserve funds (established by voters at annual school district meetings as trust funds in accordance with statutory requirements) are classified as special revenue funds for the basic financial statements. The capital reserve fund balances increased \$101,633 during the year from \$163,228 at June 30, 2003 to \$264,861 at June 30, 2004. In accordance with statutory requirements they are held in custody by the Trustees of Trust Funds of the required local municipal government and are only released for the restricted specific purposes of the individual funds.

Nonmajor Special Revenue Fund

Grants Fund

Federal and state projects are classified as special revenue funds for the basic financial statements and are operated on a cost reimbursement basis. As a result, there is no fund balance.

Food Service Fund

The food service fund is classified as a nonmajor revenue fund and is aggregated in the category Nonmajor Governmental Funds in the basic financial statements. The food service total fund balance increased \$33,891 during the year from a total fund balance of \$10,090 at June 30, 2003 to a total fund balance of \$43,981 at June 30, 2004. The fund balance consists of \$17,332 of reserve fund balance for food inventories and an unreserved, undesignated balance of \$26,649.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL FUND BUDETARY HIGHLIGHTS

For the year ended June 30, 2004 the District revised its statutory budgetary line items through budgetary transfers.

Final Versus Original Budget Comparison

The final budget varied from the original budget for the following items:

- Encumbrances in the amount of \$122,400 were carried forward to supplement the original budget approved by voters. Of this amount \$100,000 represents the amount reserved by District vote for the Special Education Fund (an expendable trust fund) and additional reserves for encumbrances in the amount \$22,400.

Actual Versus Final Budget Comparison

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

- Actual inflows (resources) exceeded the budgetary revenue estimates by a positive variance of \$73,195. This was primarily attributable to actual tuition over the estimated amount by \$16,315. and, actual Medicaid distribution in excess of estimate by \$53,996.
- The original budget for the General Fund in the amount of \$13,538,828 consists of the total appropriation voted of \$14,633,828 less amounts representing offsets for other funds; \$520,000 for the Food Service Fund, \$475,000 for the Federal and State Projects Fund and \$100,000 to Expendable Trust Funds from available fund balance.
- Actual total outflows (expenditures or charges to appropriations) were less than the budgeted total appropriation by a positive variance of \$219,834. Budgetary line items throughout the functions / program categories resulted in positive or negative variances that were due to the efforts of management to manage the line item budget (adjusted for encumbrances or any increase in unanticipated revenues).

The line item "support services" under Executive Administration was budgeted in the amount of \$259,509 and represents specific increased costs under the collective bargaining agreement. The actual costs, however, were distributed as payroll or directly associated cost expenditures in the detailed line item appropriation control accounts. This partially offsets the net negative variance (\$301,049) in the regular instruction line item.

- None of the currently known reasons for the budgetary variations are expected to have a significant effect on future services or liquidity.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$11,186,329 (\$15,095,832 at cost or estimated cost less accumulated depreciation of \$3,909,503) in a broad range of capital assets, including land and land improvements, buildings, furniture, general equipment and technology assets as summarized in Exhibit C-1.

This amount represents a net decrease of (\$205,419) or (1.80%) from the prior year and is a result of current year depreciation exceeding capital additions. This year's major additions are also summarized in Exhibit C-1.

Exhibit C-1 NET CAPITAL ASSETS AND MAJOR ADDITIONS

Net Capital Assets	Governmental Activities		
	2003	2004	Change
Land and improvements	\$ 353,257	\$ 353,257	0.00%
Buildings	13,141,346	13,147,828	
Furniture and equipment	1,582,128	1,594,747	0.80%
Capital assets, at cost	15,076,731	15,095,832	0.13%
Accumulated Depreciation	(3,684,983)	(3,909,503)	-6.09%
Capital assets, net	\$ 11,391,748	\$ 11,186,329	-1.80%
Increase in Capital Assets, Net		\$ (205,419)	
Major Additions			
Computer equipment		\$ 80,002	
Printed materials (textbooks and library books)		21,768	
Classroom furniture and equipment		16,187	
		\$ 117,957	

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Debt

At June 30, 2004, the District had \$4,733,313 of long-term obligations (\$5,406,528 in total obligations less the current portion of \$673,215) as summarized in Exhibit C-2.

This amount represents a net decrease of (\$527,753) or (10.03%) from the prior year.

Exhibit C-2 LONG-TERM LIABILITIES

Long-Term Liabilities	Governmental Activities		
	2003	2004	Change
General obligation bonds	\$ 5,250,000	\$ 4,625,000	-11.90%
Compensated absences	20,992	21,116	0.59%
Early retirement obligations	<u>660,434</u>	<u>760,412</u>	<u>15.14%</u>
	5,931,426	5,406,528	-8.85%
Less current portion	<u>(670,360)</u>	<u>(673,215)</u>	<u>-0.43%</u>
	<u>\$ 5,261,066</u>	<u>\$ 4,733,313</u>	<u>-10.03%</u>
Decrease, Net		<u>\$ (527,753)</u>	
Major Additions and Reductions			
General obligation payments		\$ (625,000)	
Early retirement obligations entered into during the year with teachers		124,346	
		<u>\$ (500,654)</u>	

State law (RSA 195:6II) limits the amount of general obligation debt that the District may incur at any one time to 10% of the locally assessed valuations (of the towns in which the District is located) as equalized by the Commissioner of the New Hampshire Department of Revenue Administration. At June 30, 2004, the District was significantly below its legal debt limit of approximately \$55,000,000.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

District management and the School Board considered many factors when submitting the fiscal year 2003-2004 budget to the District voters.

One of the major factors continues to be the impact of yearly changes in revenues under the State's system of funding education on the school district assessment to be assessed to each of the two towns in the District. Exhibit D-1 compares the actual amounts for the year ended June 30, 2004 with the amounts budgeted for fiscal year 2004-2005.

Exhibit D-1 STATE TAX AND ADEQUACY GRANTS

		Fiscal Year (Actual) <u>2003-2004</u>		Fiscal Year (Budget) <u>2004-2005</u>	Change
Town of Belmont	\$	5,025,975	\$	5,130,673	2.08%
Town of Canterbury		<u>1,203,465</u>		<u>1,013,610</u>	-15.78%
	\$	<u>6,229,440</u>	\$	<u>6,144,283</u>	-1.37%

Another factor was the assessed valuations in each of the town. Exhibit D-2 shows the assessed values for each of the town in the District used by the State to set the local school district property tax rate for the fiscal years 2003-2004 and 2004-2005.

Exhibit D-2 ASSESSED VALUES

		Fiscal Year (Actual) <u>2003-2004</u>		Fiscal Year (Budget) <u>2004-2005</u>	Change
Town of Belmont	\$	467,316,643	\$	475,319,438	1.71%
Town of Canterbury		<u>111,497,559</u>		<u>118,279,930</u>	6.08%
	\$	<u>578,814,202</u>	\$	<u>593,599,368</u>	2.55%

As a result of the above factor, the school district assessment is allocated to each of the towns in the District under a formula calculation which is based on the relative percent to the total of two components: (1) 50% by the equalized valuation percentage, and (2) 50% by the average daily membership (ADM-R) less home study percentage. Exhibit D-3 shows the school district assessment for each of the towns in the District used by the State to set the local school district property tax rate for the fiscal years 2003-2004 and 2004-2005.

Exhibit D-3 SCHOOL DISTRICT ASSESSMENT

		Fiscal Year (Actual) <u>2003-2004</u>		Fiscal Year (Budget) <u>2004-2005</u>	Change
Town of Belmont	\$	4,968,153	\$	5,698,096	14.69%
Town of Canterbury		<u>1,871,204</u>		<u>2,215,134</u>	18.38%
	\$	<u>6,839,357</u>	\$	<u>7,913,230</u>	15.70%

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Administrator.

BASIC FINANCIAL STATEMENTS

SHAKER REGIONAL SCHOOL DISTRICT

Statement of Net Assets June 30, 2004

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 168,496
Investments	694,814
Receivables, net	13,287
Due from other governments	352,740
Inventories	17,332
Current assets	<u>1,246,669</u>
Noncurrent Assets	
Capital assets:	
Land and improvements	353,257
Other capital assets, net of accumulated depreciation	<u>10,833,072</u>
Noncurrent assets	<u>11,186,329</u>
Total assets	<u>12,432,998</u>
LIABILITIES	
Current Liabilities	
Accounts payable	35,603
Accrued expenses	690,225
Deferred revenue	579
Current portion of long-term liabilities	<u>673,215</u>
Current liabilities	<u>1,399,622</u>
Noncurrent Liabilities	
Bonds payable	4,000,000
Compensated absences	<u>733,313</u>
Noncurrent liabilities	<u>4,733,313</u>
Total liabilities	<u>6,132,935</u>
NET ASSETS	
Investment in capital assets, net of related debt	6,561,329
Restricted for:	
Capital reserves	264,861
Other nonmajor purposes	43,981
Unrestricted	<u>(570,108)</u>
Total net assets	<u>\$ 6,300,063</u>

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

SHAKER REGIONAL SCHOOL DISTRICT

Statement of Activities Year Ended June 30, 2004

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
Governmental activities:				
Instruction				
Regular instruction	\$ 6,213,375	\$ -	\$ 421,789	\$ (5,791,586)
Special education instruction	1,298,286	16,315	272,010	(1,009,961)
Vocational instruction	69,047	-	-	(69,047)
Other instruction	941,217	-	-	(941,217)
Support services				
Student support services	1,023,411	-	-	(1,023,411)
Instructional staff services	494,196	-	-	(494,196)
General administration	121,948	-	-	(121,948)
Executive administration	147,766	-	-	(147,766)
School administrative services	892,573	-	-	(892,573)
Business services	186,079	-	-	(186,079)
Operation and maintenance	1,128,445	-	-	(1,128,445)
Student transportation	622,348	-	-	(622,348)
Other support services	1,490	-	-	(1,490)
Food service program	523,176	379,160	177,514	33,498
Interest expense	233,143	-	-	(233,143)
Depreciation (unallocated)	329,858	-	-	(329,858)
Total governmental activities	14,226,358	395,475	871,313	(12,959,570)
General revenues:				
School district assessment				\$ 6,839,357
Grants and contributions not restricted to specific purposes:				
Local sources				14,793
State of New Hampshire sources				6,577,574
Federal sources				103,996
Investment Income				6,033
Total general revenues				13,541,753
Change in net assets				582,183
Net assets - beginning				5,717,880
Net assets - ending				\$ 6,300,063

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

SHAKER REGIONAL SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2004

	<u>General Fund</u>	<u>Capital Reserves</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 68,684	\$ -	\$ 99,812	\$ 168,496
Investments	694,814	-	-	694,814
Receivables, net	13,287	-	-	13,287
Due from other governments	28,493	264,861	59,386	352,740
Due from other funds	99,187	-	-	99,187
Inventories	-	-	17,332	17,332
Total assets	<u>\$ 904,465</u>	<u>\$ 264,861</u>	<u>\$ 176,530</u>	<u>\$ 1,345,856</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 35,176	\$ -	\$ 427	\$ 35,603
Accrued expenses	576,260	-	32,356	608,616
Due to other funds	-	-	99,187	99,187
Deferred revenue	-	-	579	579
Total liabilities	<u>611,436</u>	<u>-</u>	<u>132,549</u>	<u>743,985</u>
Fund balances:				
Reserved for:				
Encumbrances	142,944	-	-	142,944
Inventories	-	-	17,332	17,332
Unreserved	150,085	264,861	-	414,946
Unreserved, reported in nonmajor:				
Special revenue funds	-	-	26,649	26,649
Total fund balances	<u>293,029</u>	<u>264,861</u>	<u>43,981</u>	<u>601,871</u>
Total liabilities and fund balances	<u>\$ 904,465</u>	<u>\$ 264,861</u>	<u>\$ 176,530</u>	<u>\$ 1,345,856</u>

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

SHAKER REGIONAL SCHOOL DISTRICT

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets June 30, 2004

Total Fund Balances - Governmental Funds \$ 601,871

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

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

Cost	\$ 15,095,832	
Less accumulated depreciation	<u>(3,909,503)</u>	11,186,329

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	(4,625,000)	
Compensated absences	(21,116)	
Special early termination benefits	<u>(760,412)</u>	(5,406,528)

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.

(81,609)

Total Net Assets - Governmental Activities \$ 6,300,063

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

SHAKER REGIONAL SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds Year Ended June 30, 2004

	<u>General Fund</u>	<u>Capital Reserves</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
School district assessment	\$ 6,839,357	\$ -	\$ -	\$ 6,839,357
Local sources	31,108	-	381,585	412,693
State of New Hampshire sources	6,699,363	-	7,081	6,706,444
Federal sources	103,996	-	740,018	844,014
Investment income	4,007	1,633	393	6,033
Total revenues	<u>13,677,831</u>	<u>1,633</u>	<u>1,129,077</u>	<u>14,808,541</u>
Expenditures				
Current:				
Instruction	7,923,981	-	572,010	8,495,991
Support services	1,557,475	-	-	1,557,475
General administration	121,948	-	-	121,948
Executive administration	2,987,614	-	-	2,987,614
Capital outlay	1,490	-	-	1,490
Food service program	-	-	523,176	523,176
Debt service:				
Principal	625,000	-	-	625,000
Interest	245,675	-	-	245,675
Total expenditures	<u>13,463,183</u>	<u>-</u>	<u>1,095,186</u>	<u>14,558,369</u>
Excess (deficiency) of revenues over expenditures	214,648	1,633	33,891	250,172
Other Financing Sources (Uses)				
Transfers in	-	100,000	-	100,000
Transfers out	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>
Net change in fund balances	114,648	101,633	33,891	250,172
Fund balances - beginning of year	<u>178,381</u>	<u>163,228</u>	<u>10,090</u>	<u>351,699</u>
Fund balances - end of year	<u>\$ 293,029</u>	<u>\$ 264,861</u>	<u>\$ 43,981</u>	<u>\$ 601,871</u>

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

SHAKER REGIONAL SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Total Net Change in Fund Balances - Governmental Funds \$ 250,172

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	\$ 124,439	
Depreciation expense	<u>(329,858)</u>	(205,419)

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

Principal on bonds		625,000
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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		12,532
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In the statement of activities, certain operating expenses are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used.

Compensated absences (increase) decrease		(124)
Early retirement (increase) decrease		<u>(99,978)</u>

Change in Net Assets of Governmental Activities \$ 582,183

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

SHAKER REGIONAL SCHOOL DISTRICT

Statement of Net Assets
Fiduciary Funds
June 30, 2004

	<u>Total Private Purpose Trusts</u>	<u>Total Agency Funds</u>	<u>Total Fiduciary Funds</u>
Assets			
Cash and cash equivalents	\$ -	\$ 154,004	\$ 154,004
Total assets	<u>-</u>	<u>154,004</u>	<u>154,004</u>
Liabilities			
Due to student groups	-	154,004	154,004
Total liabilities	<u>-</u>	<u>154,004</u>	<u>154,004</u>
Net Assets			
Held in trust for private purposes	-		-
Total net assets	<u>\$ -</u>		<u>\$ -</u>

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

SHAKER REGIONAL SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets Private Purpose Trust Funds Year Ended June 30, 2004

	<u>Total Private Purpose Trust Funds</u>
Additions:	
Investment Income	\$ 806
Total additions	<u>806</u>
Deductions:	
Support services	<u>29,092</u>
Total deductions	<u>29,092</u>
Operating income (loss)	<u>(28,286)</u>
Change in net assets	(28,286)
Net assets beginning of year	<u>28,286</u>
Net assets end of year	<u>\$ -</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

SHAKER REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. THE REPORTING ENTITY

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

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization; or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government. Fiscal independency is the ability to complete certain essential fiscal events without substantive approval by a primary government: (a) determine its budget without another government's having the authority to approve and modify that budget; (b) levy taxes or set rates or charges without approval by another government; and (c) issue bonded debt without approval by another government. Based upon the application of these criteria, these financial statements include no component units.

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

SHAKER REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2004

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

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

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

D. BASIS OF ACCOUNTING

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

E. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Cash Equivalents and Investments

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

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

Interfund Activity

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

SHAKER REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2004

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
Land improvements	\$ 1,500	20
Buildings and improvements	\$ 1,500	20-50
Machinerv, equipment and other	\$ 1,500	5-20

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

Compensated Absences

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

Long-term Obligations

All long-term debt is reported as liabilities in the government-wide financial statements. Long-term debt generally consists of bonds payable, capital leases and accrued compensated absences 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.

Governmental Fund Equity

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

SHAKER REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2004

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

Deposits and Investments

Per state statutes, the District Treasurer has custody of all money belonging to the District and shall pay out the same only upon orders of the School Board. The Treasurer shall deposit all such moneys in participation units in the public deposit investment pool established pursuant to RSA 383:22 or in solvent banks within the state. Moneys may be deposited in banks outside the state if such banks pledge and deliver to a third party custodian bank or the Federal Reserve Bank collateral security for such deposits, United States government or government agency obligations or State of New Hampshire obligations in value at least equal to the deposit amounts. Per state statutes, whenever the District Treasurer has in custody an excess of funds, which are not immediately needed for the purpose of expenditure, the Treasurer shall, under an annual investment policy adopted with the School Board, invest excess funds in obligations of the United States Government; 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 deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the state treasurer. The receiver of such public funds to be deposited or to be invested in securities shall, prior to acceptance of such funds, provide a collateralization option (represented by exclusively segregated securities defined by the Bank Commissioner as qualifying under RSA 386:57) for such funds in an amount at least equal to the amount to be deposited or invested in securities.

For the year ended June 30, 2004, the District was in compliance with deposit and investment state statutes.

Legal Debt Limit

Per state statute, the District may not incur debt at any one time in excess of 10% of its locally assessed valuation (for all municipalities in the District) as last equalized by the Commissioner of the New Hampshire Department of Revenue Administration.

For the year ended June 30, 2004, the District had not exceeded its legal debt limit.

SHAKER REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2004

Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees and natural disasters. The District is a member in the *Workers' Compensation* program 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 *Primex* board retains the statutory coverage for workers' compensation. The District shares in contributing to the cost of, and receiving the benefits from, this pooled risk management program under a member participation agreement which permits *Primex* to make additional assessments to members, should there be a deficiency in contributions for any year, not to exceed the member's annual contribution. At the current time, *Primex* foresees no likelihood of an assessment for any prior year in which the District was a member.

The District purchases, through an agent, coverage from an insurance company for Commercial Property and Liability (including general liability, nurses professional liability, buildings and contents, employee dishonesty, machinery and equipment), Commercial Umbrella and Public Officials Bond. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Claims, Judgments and Contingent Liabilities

Grant Programs

The District participates in numerous state, federal and private funded programs, which are governed by various laws, regulations, contracts and agreements of the grantor. Costs charged to these programs are subject to audit or review by the grantor; therefore, to the extent that the District has not complied with laws, regulations, contracts and agreements of the grantor, refunds of money for any disallowed claims, including amounts already collected, may constitute a contingent liability of the District. At June 30, 2004, 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.

SHAKER REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2004

NOTE 3 - CASH AND INVESTMENTS

Deposits

At June 30, 2004, the carrying amounts and bank balances with financial institutions of the District's cash deposits are categorized by credit risk as follows:

Category 1 Insured or collateralized by securities held by the District or its agent in the District's name.

Category 2 Collateralized by securities that are held by the pledging financial institution's trust department or agent in the District's name.

Category 3 Uncollateralized.

	Category			Carrying Amount	Bank Balance
	1	2	3		
General fund	\$ 100,000	\$ -	\$ 297,386	\$ 68,684	\$ 397,386
Special revenue funds	99,812	-	-	99,812	99,812
Fiduciary funds	50,365	-	110,115	154,004	160,480
	<u>\$ 250,177</u>	<u>\$ -</u>	<u>\$ 407,501</u>	<u>\$ 322,500</u>	<u>\$ 657,678</u>

Investments

Investments made by the District are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below.

Category 1 Insured or registered, or securities held by the District or its agent in the District's name.

Category 2 Uninsured and unregistered, with securities that are held by the counterparty's trust department or agent in the District's name.

Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the District's name.

	Category			Carrying Amount	Market Value
	1	2	3		
U.S. gov't securities	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of deposit	-	-	-	-	-
Money market funds	-	-	-	-	-
Repurchase agreements	694,814	-	-	694,814	694,814
	<u>\$ 694,814</u>	<u>\$ -</u>	<u>\$ -</u>	<u>694,814</u>	<u>694,814</u>
New Hampshire public deposit investment pool				-	-
Investments in mutual funds				-	-
Investments not evidenced by securities in physical or book entry form				-	-
				<u>\$ 694,814</u>	<u>\$ 694,814</u>

SHAKER REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2004

NOTE 4 - INTERFUND BALANCES AND TRANSFERS

Balances

Individual interfund balances at June 30, 2004 consisted of the following:

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
General fund	\$ 99,187	\$ -
Capital reserve funds	-	-
Nonmajor Funds:		
Governmental funds	-	99,187
Fiduciary Funds:		
Private purpose trust funds	-	-
Agency funds	-	-
	<u>\$ 99,187</u>	<u>\$ 99,187</u>

Transfers

Individual interfund transfers for the year ended June 30, 2004 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General fund	\$ -	\$ 100,000
Capital reserve funds	100,000	-
Nonmajor Funds:		
Governmental funds	-	-
Fiduciary Funds:		
Private purpose trust funds	-	-
Agency funds	-	-
	<u>\$ 100,000</u>	<u>\$ 100,000</u>

The District makes routine transfers during the year between the General Fund and other funds based upon statutory or budgetary authorization. There were no significant transfers made during the year that were not routine or were inconsistent with the activities of the fund making the transfer.

SHAKER REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2004

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES AND PAYABLES

Intergovernmental Receivables

Intergovernmental receivables at June 30, 2004 consisted of the following:

	<u>General Fund</u>	<u>Capital Reserves</u>	<u>Nonmajor Governmental Funds</u>
Local Governments			
Trustee of Trust Funds	\$ -	\$ 264,861	\$ -
Other	1,628	-	-
State Government			
New Hampshire	20,451	-	-
New Hampshire Retirement System	6,414	-	-
Federal / State Government			
Pass-through grants and other	-	-	59,386
	<u>\$ 28,493</u>	<u>\$ 264,861</u>	<u>\$ 59,386</u>

All intergovernmental receivables result from assessment and tuition; grant reimbursement and federal (passed-through the State of New Hampshire) Medicaid reimbursements not received until after year-end and reported in the General Fund, Grants Fund, Nonmajor Governmental Funds and Capital Reserve Funds held by the local trustee of trust funds.

Intergovernmental Payables

Intergovernmental payables at June 30, 2004 consisted of the following:

	<u>General Fund</u>	<u>Capital Reserves</u>	<u>Nonmajor Governmental Funds</u>
Local Governments			
Other	\$ -	\$ -	\$ -
State Government			
Other	-	-	-
Federal / State Government			
Pass-through grants and other	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

All intergovernmental payables result from retirement contributions and other reimbursements not paid until after year-end and reported in the General Fund and Nonmajor Governmental Funds.

SHAKER REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2004

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities (at cost)				
Capital assets not being depreciated:				
Land and improvements	\$ 353,257	\$ -	\$ -	\$ 353,257
Construction in progress	-	-	-	-
	<u>353,257</u>	<u>-</u>	<u>-</u>	<u>353,257</u>
Capital assets being depreciated:				
Land improvements	-	-	-	-
Buildings	13,141,346	6,482	-	13,147,828
Furniture and equipment	1,582,128	117,957	105,338	1,594,747
	<u>14,723,474</u>	<u>124,439</u>	<u>105,338</u>	<u>14,742,575</u>
Less accumulated depreciation:				
Land improvements	-	-	-	-
Buildings	2,763,442	201,208	-	2,964,650
Furniture and equipment	921,541	128,650	105,338	944,853
Accumulated depreciation	<u>3,684,983</u>	<u>329,858</u>	<u>105,338</u>	<u>3,909,503</u>
Capital assets being depreciated, net	<u>11,038,491</u>	<u>(205,419)</u>	<u>-</u>	<u>10,833,072</u>
Governmental activities capital assets, Net of accumulated depreciation	<u>\$ 11,391,748</u>	<u>\$ (205,419)</u>	<u>\$ -</u>	<u>\$ 11,186,329</u>

Depreciation expense for the year ended June 30, 2004 (unallocated) \$ 329,858

SHAKER REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2004

NOTE 7 - LONG-TERM LIABILITIES

The District can issue general obligation debt instruments to provide funds for the acquisition and construction of major capital equipment, infrastructure and other facilities. General obligation debt instruments are "direct government obligations" and consequently are a pledge of the full faith and credit of the District. Other long-term obligations include compensated absences and early retirement obligations.

A summary of long-term liabilities outstanding at June 30, 2004 is as follows:

	<u>General Obligation Bonds</u>	<u>Compensated Absences</u>	<u>Early Termination Benefits</u>	<u>Total</u>
Beginning balance	\$ 5,250,000	\$ 20,992	\$ 660,434	\$ 5,931,426
Additions	-	124	124,346	124,470
Reductions	<u>(625,000)</u>	-	<u>(24,368)</u>	<u>(649,368)</u>
Ending balance	<u>4,625,000</u>	<u>21,116</u>	<u>760,412</u>	<u>5,406,528</u>
Current portion	625,000	21,116	27,099	673,215
Noncurrent portion	<u>4,000,000</u>	-	<u>733,313</u>	<u>4,733,313</u>
	<u>\$ 4,625,000</u>	<u>\$ 21,116</u>	<u>\$ 760,412</u>	<u>\$ 5,406,528</u>

Long-term liabilities outstanding at June 30, 2004 consisted of the following:

	<u>Issue Year</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Original Amount of Issue</u>	<u>Amount Outstanding 6/30/04</u>
<u>General Obligation Bonds</u>					
Belmont Elementary School	1985	Varying	2005	\$ 600,000	\$ 30,000
Belmont Elementary School	1985	Varying	2005	1,912,500	95,000
High School Construction	1997	4.75-4.8%	2012	7,500,000	<u>4,500,000</u>
					<u>4,625,000</u>
<u>Other Long-Term Obligations</u>					
Compensated absences					21,116
Early termination benefits					<u>760,412</u>
					<u>781,528</u>
					<u>\$ 5,406,528</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 625,000	\$ 210,411	\$ 835,411
2006	500,000	178,625	678,625
2007	500,000	154,875	654,875
2008	500,000	131,125	631,125
2009	500,000	107,375	607,375
After	<u>2,000,000</u>	<u>191,500</u>	<u>2,191,500</u>
	<u>\$ 4,625,000</u>	<u>\$ 973,911</u>	<u>\$ 5,598,911</u>

SHAKER REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2004

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, 2004 were 2.64% and 5.9% of covered payroll for teachers and other employees, respectively (representing 65% of the cost for teachers and 100% of the cost for other employees). The District's contributions to the System for the years ending June 30, 2004, 2003, and 2002 were \$226,179, \$197,163 and \$180,649, respectively, equal to the required contributions for each year.

The State of New Hampshire provides, directly to the System, 35% of the funding of the District's teacher employer contributions; which in accordance with GASB Statement No. 24, represents on-behalf fringe benefit payments that are required to be reported as revenue and expense in the statement of activities and as revenue and expenditure in the governmental funds statement of revenues, expenditures and changes in fund balances. For the year ended June 30, 2004 on-behalf fringe benefit payments were made by the State of New Hampshire for District in the amount of \$121,789.

NOTE 9 - COLLECTIVE BARGAINING AGREEMENTS

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

NOTE 10 - POST-RETIREMENT HEALTH CARE

The District does not provide post-employment health-care benefits except those mandated by the Consolidated Omnibus Reconciliation Act (COBRA). The requirements established by COBRA for post-employment health-care benefits provide that employees who elect coverage under the Act are responsible for the cost.

SHAKER REGIONAL SCHOOL DISTRICT

Notes to Basic Financial Statements
June 30, 2004

NOTE 11 - LONG-TERM COMMITMENT

The District has entered into a five-year contract with a carrier for student transportation services. Under the terms and conditions of the contract the carrier will operate the regular routes and specialized transportation (as requested) of the District for the following sums:

Fiscal Year	Regular Routes	Specialized Transportation - As Requested			
		Late Bus	Laconia Voc. Ed	Winnisquam Voc. Ed	Mid-Day K
2004-2005	\$ 442,290	\$ 7,305	\$ 36,496	\$ 10,151	\$ 30,869
2005-2006	455,559	7,524	37,591	10,456	31,795
2006-2007	569,226	7,750	38,719	10,770	32,749
2007-2008	483,303	7,983	39,881	11,093	33,731
	<u>\$ 1,950,378</u>	<u>\$ 30,562</u>	<u>\$ 152,687</u>	<u>\$ 42,470</u>	<u>\$ 129,144</u>

The contract contains a cost of fuel "cap" component stated at \$1.15 per gallon, net of all taxes. Should the cost of fuel exceed the cap the District shall reimburse the carrier for the excess cost based upon actual mileage operated calculated at 6.8 miles per gallon for 77-passenger buses and 10.0 miles per gallon for 20-passenger mini-buses.

REQUIRED SUPPLEMENTARY INFORMATION

SHAKER REGIONAL SCHOOL DISTRICT

Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original			
	Budget	Final Budget	Actual	Variance
Budgetary Fund Balance - Beginning	\$ 55,981	\$ 178,381	\$ 178,381	\$ -
Resources (inflows):				
School district assessment				
Local school tax	6,840,713	6,840,713	6,839,357	(1,356)
Local sources				
Tuition	-	-	16,315	16,315
Earnings on investments	7,500	7,500	4,007	(3,493)
Other	7,500	7,500	14,793	7,293
State of New Hampshire sources				
School building aid	287,086	287,086	287,086	-
Catastrophic aid	59,745	59,745	58,930	(815)
Vocational aid	2,222	2,222	2,121	(101)
Adequacy grant	3,535,801	3,535,801	3,537,157	1,356
State education tax	2,692,280	2,692,280	2,692,280	-
Federal sources				
Medicaid distribution	50,000	50,000	103,996	53,996
Amounts available for appropriation	13,538,828	13,661,228	13,734,423	73,195
Charges to appropriations (outflows):				
Instruction				
Regular instruction	5,983,980	5,882,357	6,183,406	(301,049)
Special education instruction	1,386,266	1,460,917	1,302,321	158,596
Vocational instruction	73,000	73,000	69,047	3,953
Other instruction	254,504	283,022	238,524	44,498
Adult and community programs	11,638	11,638	-	11,638
Community / After school program	-	-	8,894	(8,894)
Support services				
Student support services	1,060,630	1,081,234	1,037,879	43,355
Instructional staff services	533,367	556,256	519,596	36,660
General administration				
Other school board	94,036	121,436	121,948	(512)
Executive administration				
SAU management services	-	6,723	-	6,723
All other administration	135,116	135,116	151,687	(16,571)
School administrative services	883,154	918,931	892,573	26,358
Business services	183,307	191,124	186,079	5,045
Operation and maintenance	1,062,009	1,068,387	1,134,927	(66,540)
Student transportation	635,903	635,903	622,348	13,555
Support services	361,243	259,509	-	259,509
Capital outlay				
Various	10,000	5,000	1,490	3,510
Debt service				
Debt service principal	625,000	625,000	625,000	-
Debt service interest	245,675	245,675	245,675	-
Operating transfers out				
Special revenue funds	-	100,000	100,000	-
Total charges to appropriations	13,538,828	13,661,228	13,441,394	219,834
Budgetary Fund Balance - Ending	\$ -	\$ -	\$ 293,029	\$ 293,029

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SHAKER REGIONAL SCHOOL DISTRICT

Notes to Required Supplementary Information
June 30, 2004

NOTE 1 - BUDGETARY INFORMATION

A. Original Budget

Governmental budgetary appropriations and estimated revenues are accounted for on a fund basis in accordance with state statutes, administrative rules and local laws, policies or procedures. The budgetary process results in a formally adopted District budget by voters at the annual District meeting. Subsequent regulatory reviews by departments of the State of New Hampshire are made of the budgetary process (warrant articles, required results of votes, etc.), adopted budget and the estimated revenues of the District. After final allocation of state aid programs to the District and approval of final estimated revenues (including the use of beginning unreserved general fund balance), a balanced District budget is achieved in accordance with State statute (the "original" budget). The original budget is the first complete, legally appropriated budget adjusted for appropriate changes occurring *before* the beginning of the year. The original budget for the General Fund in the amount of \$13,538,828 consists of the total appropriation voted of \$14,633,828 less amounts representing offsets for other funds; \$520,000 for the Food Service Fund, \$475,000 for the Federal and State Projects Fund and \$100,000 to Expendable Trust Funds if available from the unreserved, undesignated general fund balance.

B. Budgetary Changes, Transfers, Encumbrances and Continuing Appropriations

Budgetary Changes

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

Transfers

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

Encumbrances and Continuing Appropriations

All annual appropriations lapse at year-end unless encumbered. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Encumbrances are not expenditures and are reported as a reservation of fund balances in governmental funds and are carried forward to supplement appropriations of the subsequent year. Certain appropriations that are not "annual appropriations" do not lapse at year-end. These continuing appropriations include those from special or unanticipated revenues, capital projects and specific items that are not required to have been completed at year-end. Continuing appropriations are reported as a reservation of fund balances in governmental funds and are carried forward to supplement appropriations of the subsequent year. Encumbrances in the amount of \$22,400 were carried forward to supplement the original budget.

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.

SHAKER REGIONAL SCHOOL DISTRICT

Notes to Required Supplementary Information
June 30, 2004

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	\$ 13,734,423
Differences - Budget to GAAP:	
Budgetary inflows that are not revenues for financial reporting purposes	
Beginning unreserved fund (balance) deficit - used to reduce taxes	(55,981)
Beginning unreserved fund (balance) deficit - appropriated by voters	(100,000)
Reserves for encumbrances - beginning	(22,400)
Teacher retirement on behalf payments by the State of New Hampshire	<u>121,789</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 13,677,831</u>
Uses / Outflows of Resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 13,441,394
Differences - Budget to GAAP:	
Budgetary outflows that are not expenditures for financial reporting purposes	
Teacher retirement on-behalf payments by the State of New Hampshire	121,789
Transfers to other funds	<u>(100,000)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 13,463,183</u>

OTHER SUPPLEMENTARY INFORMATION

SHAKER REGIONAL SCHOOL DISTRICT

Combining Balance Sheet - Nonmajor Governmental Funds June 30, 2004

	<u>Grants Fund</u>	<u>Food Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ -	\$ 99,812	\$ 99,812
Due from other governments	59,386	-	59,386
Inventories	-	17,332	17,332
Total assets	<u>\$ 59,386</u>	<u>\$ 117,144</u>	<u>\$ 176,530</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 427	\$ -	\$ 427
Accrued expenses	28,967	3,389	32,356
Due to other funds	29,413	69,774	99,187
Deferred revenue	579	-	579
Total liabilities	<u>59,386</u>	<u>73,163</u>	<u>132,549</u>
Fund balances:			
Reserved for:			
Inventories	-	17,332	17,332
Unreserved	-	26,649	26,649
Total fund balances	<u>-</u>	<u>43,981</u>	<u>43,981</u>
Total liabilities and fund balances	<u>\$ 59,386</u>	<u>\$ 117,144</u>	<u>\$ 176,530</u>

SHAKER REGIONAL SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2004

	<u>Grants Fund</u>	<u>Food Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues			
Local sources	\$ 2,425	\$ 379,160	\$ 381,585
State of New Hampshire sources	-	7,081	7,081
Federal sources	569,585	170,433	740,018
Investment Income	-	393	393
Operating transfers in	-	-	-
	<u>572,010</u>	<u>557,067</u>	<u>1,129,077</u>
Expenditures			
Instruction	572,010	-	572,010
Food service program	-	523,176	523,176
	<u>572,010</u>	<u>523,176</u>	<u>1,095,186</u>
Excess revenue and other financing sources over (under) expenditures and other financing uses	-	33,891	33,891
Fund balances - beginning of year	-	10,090	10,090
Fund balances - end of year	<u>\$ -</u>	<u>\$ 43,981</u>	<u>\$ 43,981</u>

FEDERAL AWARDS SUPPLEMENTARY INFORMATION

GRZELAK AND COMPANY, P.C.

Certified Public Accountants

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

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

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

To the School Board
Shaker Regional School District
Belmont, New Hampshire

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Shaker Regional School District as of and for the year ended June 30, 2004, which collectively comprise the Shaker Regional School District's basic financial statements and have issued our report thereon dated June 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shaker Regional School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shaker Regional School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

Grzelak and Co., P.C.

GRZELAK AND COMPANY, P.C., CPA's
Laconia, New Hampshire
June 27, 2005

GRZELAK AND COMPANY, P.C.

Certified Public Accountants

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

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

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

To the School Board
Shaker Regional School District
Belmont, New Hampshire

Compliance

We have audited the compliance of Shaker Regional School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Shaker Regional School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Shaker Regional School District's management. Our responsibility is to express an opinion on Shaker Regional School District's compliance based on our audit.

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

In our opinion, Shaker Regional School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Shaker Regional School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Shaker Regional School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Grzelak and Co., P.C.

GRZELAK AND COMPANY, P.C., CPA's
Laconia, New Hampshire
June 27, 2005

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SHAKER REGIONAL SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004**

Federal Grantor / Pass-Through Grantor Program or Cluster Title	Federal CFDA #	Pass Through ID #	Expenditures of Federal Awards
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the NH Surplus Distribution Section			
Food Donation	10.550		\$ 32,669
Passed through the NH Department of Education			
CHILD NUTRITION CLUSTER			
School Breakfast Program	10.553		23,425
National School Lunch Program	10.555		114,339
			<u>137,764</u>
			<u>170,433</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Learn to Serve America - School and Community Based Program	94.004	46407	\$ 9,971
U.S. DEPARTMENT OF EDUCATION			
Passed through the NH Department of Education			
SPECIAL EDUCATION CLUSTER			
Special Education - Grants to States	84.027	32512	3,528
Special Education - Preschool Grants	84.027	42506	223,537
Special Education - Preschool Grants	84.173	42706	3,617
			<u>230,682</u>
Title I, Grants to Local Educational Agencies	84.010	40065	175,474
Title I, Grants to Local Educational Agencies	84.010	30056	20,441
Safe and Drug-Free Schools and Communities - State Grants	84.186	46518	12,534
Innovative Education Program Strategies	84.298	36134	6
Innovative Education Program Strategies	84.298	46134	11,624
Education Technology State Grants	84.318	44544	8,876
Preparing Tomorrow's Teachers to Use Technology	84.318	34443	3,033
Title II-A Improving Teacher Quality State Grants	84.367	44920	79,945
Title II-A Improving Teacher Quality State Grants	84.367	34920	16,999
			<u>328,932</u>
			<u>559,614</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 740,018</u>

The accompanying notes are an integral part of this schedule.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SHAKER REGIONAL SCHOOL DISTRICT

Notes to Schedule of Expenditures of Federal Awards June 30, 2004

The schedule of expenditures of federal awards is prepared in accordance with the regulations defined in the Office of Management and Budget's (OMB), Circular No. A-133, "Audits of States, Local Governments, and Non-Profit Organizations." The schedule of expenditures of federal awards is prepared for the period covered by the related financial statements, the year ended June 30, 2004.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The expenditures reported in the schedule are based on requirements defined in OMB Circular A-133 and include, but are not limited to, expenditure/expense transactions associated with grants, cost reimbursement contracts, the receipt or use of program income and the distribution or consumption of food commodities. During the year ended June 30, 2004 the District expended funds associated with grants, received surplus commodities and received cost reimbursements for meals served.

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

2. RECONCILIATION TO FINANCIAL STATEMENT AMOUNT

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

Schedule of Expenditures of Federal Awards	<u>\$ 740,018</u>
Statement of Revenues, Expenditures, and Changes in Fund Balances	
Nonmajor Governmental Funds	
Grant Fund - Federal sources	\$ 569,585
Food Service Fund - Federal pass-through sources	<u>170,433</u>
	<u>\$ 740,018</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SHAKER REGIONAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs 1 - Summary of Auditor's Results June 30, 2004

- i. Type of auditor's report issued on the financial statements – Unqualified.
- ii. A statement (if applicable) that (if) reportable conditions in internal control were disclosed by the audit of the financial statements and whether any such conditions were material weaknesses – Not applicable, no reportable conditions relating to the audit of the financial statements were disclosed.
- iii. A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee – No findings.
- iv. A statement (if applicable) that (if) reportable conditions in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses – No findings.
- v. Type of auditor's report issued on compliance for major programs - Unqualified.
- vi. Statement as to whether the audit disclosed any audit findings which the auditor is required to report under OMB Circular A-133: Section 510(a):
 - Reportable Conditions in Internal Control over Major Programs – No findings.
 - Material Noncompliance with the Provisions of Laws, Regulations, Contracts or Grant Agreements Related to a Major Program - No findings.
 - Known Questioned Costs which are Greater Than \$10,000 for a Type of Compliance Requirement for a Major Program - No findings.
 - Known Questioned Costs which are Greater Than \$10,000 for a Federal Program which is Not Audited as a Major Program - No findings.
 - Circumstances concerning why the Auditor's Report on Compliance for Major Programs is Other Than Unqualified - No findings.
 - Known Fraud Affecting a Federal Award - No findings.
 - Instances where the Results of the Audit Follow Up Procedures Disclosed that the Summary Schedule of Prior Audit Findings prepared by the Auditee Materially Misrepresents the Status of any Prior Audit Finding - No findings.
- vii. Identification of Major Programs:
 - CFDA # 84.010 - Title I, Grants to Local Educational Agencies
 - SPECIAL EDUCATION CLUSTER
 - CFDA # 84.027 - Special Education - Grants to States
 - CFDA # 84.173 - Special Education - Preschool Grants
- viii. Dollar Threshold used to Distinguish between Type A and Type B Programs - \$300,000.
- ix. Statement as to whether Auditee Qualified as a Low-Risk Auditee under OMB Circular A-133: Section 530 – No.

SHAKER REGIONAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
2 - Financial Statement Findings
June 30, 2004

NO FINDINGS OR QUESTIONED COSTS

SHAKER REGIONAL SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
3 - Federal Awards
June 30, 2004**

NO FINDINGS OR QUESTIONED COSTS