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Independent Auditors' Report

To the Board of Education
Regional School District No. 19
Storrs, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Regional School District No. 19, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Regional School District No. 19's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Regional School District No. 19 as of June 30, 2013 and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages A-3 through A-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
November 27, 2013

REGIONAL SCHOOL DISTRICT No. 19

EDWIN O. SMITH HIGH SCHOOL

Ashford, Mansfield and Willington, CT

1235 Storrs Road

Storrs, CT 06268-2287

860-487-1862

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Bruce W. Silva

Superintendent

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

Management of the Regional School District No. 19 (the District), offers readers of these financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$34,969,007 (*net position*). Of this amount, \$6,685,737 (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$253,283 primarily due to a decrease in long term-debt from bond principal payments, offset by depreciation in excess of capital asset additions.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,061,147, an increase of \$358,535 in comparison with the prior year. Unassigned fund balance at June 30, 2013 was (\$422,264), with an unassigned fund balance in the capital projects fund of (\$429,378). The negative unassigned fund balance in the capital projects fund is primarily due to the Depot Campus project, which the District is paying off over time.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$7,114. State law prohibits Regional School Districts from accumulating a fund balance in the general fund.
- The District's total long-term obligations decreased by \$2,102,730 (17.0%) during the current fiscal year.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide financial statements can be found on Exhibits I and II.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

The basic governmental fund financial statements can be found on Exhibits III and IV.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, debt service fund, capital projects fund and the other operating fund, which are considered to be major funds. Nonmajor governmental funds are combined into a single, aggregated presentation on the governmental statements. Individual fund data for each nonmajor governmental fund is provided in the form of combining statements later in the report. At this time there is only one nonmajor governmental fund, the education grants fund, therefore, there are no combining statements for this fiscal year.

The District adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget (Exhibit V).

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on Exhibits VI and VII.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found after Exhibit VII.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to basic financial statements.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$34,969,007 at the close of the most recent fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The largest portion of the District's net position (80.9%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings and equipment) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide public education to eligible citizens living within the district; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

REGIONAL SCHOOL DISTRICT NO. 19
NET POSITION

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 8,322,472	\$ 9,194,433
Capital assets	<u>38,369,529</u>	<u>39,212,231</u>
Total assets	<u>46,692,001</u>	<u>48,406,664</u>
Long-term liabilities outstanding	10,267,902	12,370,632
Other liabilities	<u>1,455,092</u>	<u>1,320,308</u>
Total liabilities	<u>11,722,994</u>	<u>13,690,940</u>
Net position:		
Net investment in capital assets	28,283,270	26,990,745
Unrestricted	<u>6,685,737</u>	<u>7,724,979</u>
Total Net Position	<u>\$ 34,969,007</u>	<u>\$ 34,715,724</u>

The remaining balance of unrestricted net position (\$6,685,737) may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District is able to report positive balances in all categories of net position.

Governmental activities. The District's net position increased by \$253,283 during the current fiscal year. This was the result of a decrease in long-term debt of \$2,102,730 primarily due to principal payments of \$2,157,000; offset by depreciation in excess of capital asset additions (\$842,702), and a reduction in current assets, primarily due from the State.

**REGIONAL SCHOOL DISTRICT NO. 19
CHANGE IN NET POSITION**

	<u>2013</u>	<u>2012</u>
<u>Revenues:</u>		
Program revenues:		
Charges for services	\$ 2,329,374	\$ 1,783,652
Operating grants and contributions	3,141,468	3,422,927
Capital grants and contributions	713,275	376,324
General revenues:		
Assessment to member towns	17,725,000	17,725,001
Investment income	2,217	2,867
Total Revenues	<u>23,911,334</u>	<u>23,310,771</u>
<u>Expenses:</u>		
Instructional programs	14,696,811	14,567,881
Guidance services	1,161,587	1,164,932
Curriculum development	211,297	208,794
Educational media	233,187	211,278
General administration	4,951,070	4,794,055
Student activities	736,437	735,287
Transportation	1,291,006	1,183,134
Interest expense	376,656	420,692
Total Expenses	<u>23,658,051</u>	<u>23,286,053</u>
Change in Net Position	253,283	24,718
Net Position - Beginning of Year	<u>34,715,724</u>	<u>34,691,006</u>
Net Position - End of Year	<u>\$ 34,969,007</u>	<u>\$ 34,715,724</u>

The significant changes in revenues were as follows:

Operating grants and contributions decreased by \$281,459. This decrease was primarily due to the loss of the Education Jobs Funding grant of \$350,655 received in FY 2011/12, offset by an increase in the Title I grant of \$26,641 and other minor increases. Capital grants and contributions increased by \$336,951 due to the receipt of a Vocational Agriculture Equipment grant. The assessment to member towns decreased by \$1, primarily due to contracted increases in salaries and benefits for both instruction and administration, offset by an increase in charge for services for regular education. This was the second year accepting students from the Town of Columbia on a tuition basis to Regional School District 19.

The significant changes in expenses were as follows:

The increase in expenses for instructional programs of \$128,930 and General Administration of \$157,015 was primarily due to contracted salary increases and benefits and the loss of the Education Jobs Funding grant. Transportation reflects a \$107,872 increase due to an increase in the cost of contracted services. The District realized a reduction in interest expense this year (\$44,036) due to scheduled principal payments.

For the other functions, increases and decreases in expenses were reflective of demand for services.

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,061,147, an increase of \$358,535 in comparison with the prior year. The unassigned fund balance amount was (\$422,264). The remainder of fund balance is not available for new or additional appropriations because it is 1) restricted for a specific purpose by an external source (\$386,035), or 2) committed to be used for a specific purpose as determined by the Board of Education (\$876,010), primarily capital projects and special education costs) or 3) assigned to be used to liquidate prior year purchase orders (\$221,366).

The general fund is the operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$7,114. State Law provides that any unassigned fund balance in the general fund must be returned to the member towns. The Regional Board accomplishes this by reducing member town assessments in subsequent years.

The fund balance of the District's general fund decreased by \$8,601 during the current fiscal year. The key factor is a decrease in the open encumbrances at yearend from \$234,418 at June 30, 2012 to \$221,366 at June 30, 2013.

The debt service fund has a total fund balance of \$378,216, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$12,424, reflective of General Fund contributions and State revenues in excess of debt service payments.

The capital projects fund has a total fund balance of (\$385,134). This deficit fund balance is reflective of the Depot Campus project which is being funded internally over multiple years. The net increase in fund balance during the year was \$39,441 as project funding exceeded expenditures.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget can be briefly summarized as follows:

- \$270,470 increase in substitute teachers primarily for a number of long term absences
- \$40,214 increase in Media Services educational equipment, primarily projectors
- \$31,247 increase for coaches and advisors for the Athletic Program
- \$37,026 increase in facility maintenance projects, primarily new interior door locks for school security
- \$36,651 increase in Agricultural Education equipment for a 13-passenger activity bus

General Fund Budgetary Highlights (continued)

- \$328,784 decrease in certified instruction primarily due to long term absences covered by substitutes
- \$112,586 decrease in special education outplaced tuition as these costs were covered by the special education reserve account

Total expenditures did not exceed the legally appropriated budget for the year. All of the above amounts were transfers between accounts.

Revenues were slightly more than budgetary estimates and expenditures were slightly less than budgetary estimates thus causing a net increase of \$2,732 in fund balance.

Capital Assets and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2013, amounts to \$38,369,529 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements other than buildings and equipment. The District's net additions in capital assets for the current fiscal year were \$326,286. This was offset by depreciation expense of \$1,160,176. The District's investment in capital assets decreased from \$39,212,231 to \$38,369,529 or by \$842,702.

The significant capital assets activity for the year was net asset additions of \$326,286 mainly for wireless information technology infrastructure (\$97,686), various equipment for the vocational agriculture program (\$111,233), and rolling stock (\$92,257), offset by depreciation expense of \$1,160,176.

**REGIONAL SCHOOL DISTRICT NO. 19
CAPITAL ASSETS - NET**

	2013	2012
Land	\$ 858,508	\$ 858,508
Construction in progress		2,308,333
Buildings	31,411,298	32,247,576
Leasehold improvements	2,445,082	2,537,126
Improvements other than buildings	2,855,620	827,508
Equipment	799,021	433,180
Total	\$ 38,369,529	\$ 39,212,231

Additional information on the District's capital assets can be found in Note 3C.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$10,180,000. The entire amount is backed by the full faith and credit of the member towns of Ashford, Mansfield and Willington.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

REGIONAL SCHOOL DISTRICT NO. 19 LONG-TERM OBLIGATIONS

	<u>2013</u>	<u>2012</u>
General obligation bonds and related liabilities	\$ 10,086,259	\$ 12,221,486
Compensated absences	153,962	125,569
Net OPEB Obligation	<u>27,681</u>	<u>23,577</u>
TOTALS	<u>\$ 10,267,902</u>	<u>\$ 12,370,632</u>

The District's total long-term liabilities decreased by \$2,102,730 (17%) during the current fiscal year. The key factor in this decrease was scheduled annual principal payments of \$2,157,000.

The District maintains an "Aa3" rating from Moody's for general obligation debt.

State statutes limit the amount of general obligation debt a Regional School District may issue to 2.5 times total tax collections including interest and lien fees and the tax relief for elderly freeze grant of the member towns. The current debt limitation for the District is \$107,437,073, which is significantly in excess of the District's outstanding general obligation debt.

Additional information on the District's long-term debt can be found in Note 3E.

Economic Factors and Next Year's Budgets and Rates

The District's only school is E.O. Smith High School, located on two campuses. The District and its member towns is the beneficiary of the University of Connecticut being located in Mansfield. With over 4,500 employees, the University is the major employer for the member towns. This has had a positive effect on employment rates regardless of the business cycle. The area is also seeing significant growth with the development of Storrs Center, a mixed-use town center and main street corridor at the crossroads of the Town of Mansfield and the University of Connecticut, and at the location of the District's main campus.

The following table presents unemployment rates for the member towns, the Hartford Labor Market, the State and the United States.

2013 Monthly

<u>Yearly Average</u>	<u>Town of Ashford</u>	<u>Town of Mansfield</u>	<u>Town of Willington</u>	<u>Hartford Labor Market</u>	<u>State of Connecticut</u>	<u>United States</u>
2008	4.6%	4.7%	4.2%	5.7%	5.6%	5.8%
2009	6.5	6.0	6.0	8.2	8.2	9.3
2010	8.3	7.5	6.8	9.4	9.3	9.6
2011	8.2	7.7	6.8	9.0	8.9	8.9
2012	8.1	7.4	6.5	8.4	8.3	8.1
January	9.0	7.5	6.3	8.7	8.1	8.5
February	7.6	6.7	6.1	8.4	8.0	8.1
March	7.8	7.5	5.5	8.2	8.0	7.6
April	7.2	6.0	4.9	7.8	8.0	7.1
May	6.7	7.2	5.9	8.1	8.0	7.3
June	8.6	8.5	6.3	8.2	8.0	7.8

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The above factors were considered in preparing the District's budget for the 2013 fiscal year.

The budget for fiscal year 2014 was adopted on May 7, 2013. This budget required no increase to the member towns. However, because of changes in the number of students sent from each town, the actual increases (decreases) were: Ashford (\$106,821) (2.9%), Mansfield \$501,965 or 5.3%, and Willington (\$395,144) or (8.8%).

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the School Business Manager, Cheryl A. Trahan, Town of Mansfield, 4 South Eagleville Road, Mansfield, CT 06268.

REGIONAL SCHOOL DISTRICT NO. 19
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 2,269,185
Receivables:	
Accounts	6,949
Intergovernmental	6,046,338
Capital assets not being depreciated	858,508
Capital assets being depreciated (net of accumulated depreciation)	<u>37,511,021</u>
Total assets	<u>46,692,001</u>
Liabilities:	
Accounts payable	213,318
Accrued liabilities	1,234,707
Unearned revenue	7,067
Noncurrent liabilities:	
Due within one year	2,140,792
Due in more than one year	<u>8,127,110</u>
Total liabilities	<u>11,722,994</u>
Net Position:	
Net investment in capital assets	28,283,270
Unrestricted	<u>6,685,737</u>
Total Net Position	<u><u>\$ 34,969,007</u></u>

The accompanying notes are an integral part of the financial statements

EXHIBIT II

**REGIONAL SCHOOL DISTRICT NO. 19
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net Expenses and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental activities:					
Instructional programs	\$ 14,696,811	\$ 2,329,374	\$ 2,892,189	\$ 419,475	\$ (9,055,773)
Guidance services	1,161,587				(1,161,587)
Curriculum development	211,297		88,804		(122,493)
Educational media	233,187				(233,187)
General administration	4,951,070			293,800	(4,657,270)
Student activities	736,437				(736,437)
Transportation	1,291,006		160,475		(1,130,531)
Interest expense	376,656				(376,656)
Total Governmental Activities	\$ 23,658,051	\$ 2,329,374	\$ 3,141,468	\$ 713,275	(17,473,934)
General revenues:					
Assessment to member towns					17,725,000
Investment income					2,217
Total general revenues					17,727,217
Change in net position					253,283
Net Position at Beginning of Year					34,715,724
Net Position at End of Year					\$ 34,969,007

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The accompany notes are an integral part of the financial statements

REGIONAL SCHOOL DISTRICT NO. 19
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

		Debt Service Fund	Capital Projects Fund	Other Operating Fund	Nonmajor Governmental Fund Education Grants Fund	Total Governmental Funds
	General					
ASSETS						
Cash and cash equivalents	\$ 1,072,064	\$ 378,216	\$	\$ 816,894	\$ 2,011	\$ 2,269,185
Receivables:						
Accounts	6,949					6,949
Intergovernmental			28,719		195,350	224,069
Due from other funds	<u>597,308</u>					<u>597,308</u>
Total Assets	<u>\$ 1,676,321</u>	<u>\$ 378,216</u>	<u>\$ 28,719</u>	<u>\$ 816,894</u>	<u>\$ 197,361</u>	<u>\$ 3,097,511</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts and other payables	\$ 183,745	\$	\$ 10,676	\$	\$ 2,861	\$ 197,282
Accrued liabilities	1,234,707					1,234,707
Due to other funds			403,177	6,787	187,344	597,308
Deferred revenue					<u>7,067</u>	<u>7,067</u>
Total liabilities	<u>1,418,452</u>	<u>-</u>	<u>413,853</u>	<u>6,787</u>	<u>197,272</u>	<u>2,036,364</u>
Fund balances:						
Restricted		378,216		7,730	89	386,035
Committed	29,389		44,244	802,377		876,010
Assigned	221,366					221,366
Unassigned	<u>7,114</u>		<u>(429,378)</u>			<u>(422,264)</u>
Total fund balances	<u>257,869</u>	<u>378,216</u>	<u>(385,134)</u>	<u>810,107</u>	<u>89</u>	<u>1,061,147</u>
Total Liabilities and Fund Balances	<u>\$ 1,676,321</u>	<u>\$ 378,216</u>	<u>\$ 28,719</u>	<u>\$ 816,894</u>	<u>\$ 197,361</u>	<u>\$ 3,097,511</u>

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(Continued)

REGIONAL SCHOOL DISTRICT NO. 19
BALANCE SHEET
GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2013

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position:

Amounts reported for governmental activities in the statement of net position (Exhibit I) are different because of the following:

Fund balances - total governmental funds	\$	1,061,147
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Governmental capital assets	\$	53,209,153
Less accumulated depreciation		<u>(14,839,624)</u>
Net capital assets		38,369,529
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not recorded in the funds:		
Receivable from the state for school construction projects		5,822,269
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
Net OPEB obligation		(27,681)
Bonds and notes payable		(10,180,000)
Interest payable on bonds		(16,036)
Compensated absences		(153,962)
Deferred charges on refunding		185,000
Bond premium		<u>(91,259)</u>
Net Position of Governmental Activities (Exhibit I)	\$	<u><u>34,969,007</u></u>

The notes are an integral part of the financial statements

REGIONAL SCHOOL DISTRICT NO. 19
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General	Debt Service Fund	Capital Projects Fund	Other Operating Fund	Nonmajor Governmental Fund Education Grants Fund	Total Governmental Funds
Revenues:						
Assessment to member towns	\$ 17,725,000	\$	\$	\$	\$	\$ 17,725,000
Intergovernmental	2,272,103	1,657,115	419,475	515,916	340,238	5,204,847
Charges for services	1,345,268			983,990		2,329,258
Investment income	2,214			3		2,217
Other	8,632			2,500		11,132
Total revenues	<u>21,353,217</u>	<u>1,657,115</u>	<u>419,475</u>	<u>1,502,409</u>	<u>340,238</u>	<u>25,272,454</u>
Expenditures:						
Current:						
Instructional programs	9,477,812			1,242,718	340,238	11,060,768
Guidance services	953,734					953,734
Curriculum development	48,627					48,627
Educational media	233,187					233,187
General administration	3,245,395					3,245,395
Student activities	739,364					739,364
Transportation	1,226,016					1,226,016
Employee benefits	4,282,103					4,282,103
Debt service		2,494,691				2,494,691
Capital outlay			630,034			630,034
Total expenditures	<u>20,206,238</u>	<u>2,494,691</u>	<u>630,034</u>	<u>1,242,718</u>	<u>340,238</u>	<u>24,913,919</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,146,979</u>	<u>(837,576)</u>	<u>(210,559)</u>	<u>259,691</u>	<u>-</u>	<u>358,535</u>
Other Financing Sources (Uses):						
Transfers in		900,000	250,000	55,580		1,205,580
Transfers out	(1,155,580)	(50,000)				(1,205,580)
Net other financing sources (uses)	<u>(1,155,580)</u>	<u>850,000</u>	<u>250,000</u>	<u>55,580</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(8,601)	12,424	39,441	315,271	-	358,535
Fund Balances at Beginning of Year	<u>266,470</u>	<u>365,792</u>	<u>(424,575)</u>	<u>494,836</u>	<u>89</u>	<u>702,612</u>
Fund Balances at End of Year	<u>\$ 257,869</u>	<u>\$ 378,216</u>	<u>\$ (385,134)</u>	<u>\$ 810,107</u>	<u>\$ 89</u>	<u>\$ 1,061,147</u>

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REGIONAL SCHOOL DISTRICT NO. 19
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities:

Amounts reported for governmental activities in the statement of activities (Exhibit II) are different because:

Net change in fund balances - total governmental funds (Exhibit IV)	\$ 358,535
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Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	326,286
Depreciation expense	(1,160,176)

The statement of activities reports losses arising from the trade-in or disposal of existing capital assets to acquire new capital assets. Conversely, governmental funds do not report any gain or loss on a trade-in or disposal of capital assets.	(8,812)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, and revenues recognized in the funds are not reported in the statement of activities:

School building grant receipts	(1,363,315)
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are amortized and deferred in the statement of activities. The details of these differences in the treatment of long-term debt and related items are as follows:

Bond principal payments	2,157,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Compensated absences	(28,393)
Net OPEB obligation	(4,104)
Accrued interest	(1,965)
Amortization of deferred charge on refunding	(37,000)
Amortization of premiums	15,227
	15,227

Change in Net Position of Governmental Activities (Exhibit II)	\$ <u><u>253,283</u></u>
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The accompanying notes are an integral part of the financial statements

REGIONAL SCHOOL DISTRICT NO. 19
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Assessment to member towns	\$ 17,725,000	\$ 17,725,000	\$ 17,725,000	\$ -
Intergovernmental	312,650	312,650	380,355	67,705
Charges for services	1,496,470	1,496,470	1,345,268	(151,202)
Investment income	2,500	2,500	2,214	(286)
Other income			84,972	84,972
	<u>19,536,620</u>	<u>19,536,620</u>	<u>19,537,809</u>	<u>1,189</u>
Expenditures:				
Current:				
Instructional programs	9,625,740	9,495,394	9,495,394	-
Guidance services	957,990	953,845	953,845	-
Curriculum development	46,190	54,121	54,121	-
Educational media	217,010	257,224	257,224	-
General administration	3,189,520	3,265,690	3,265,690	-
Student activities	725,710	743,174	743,174	-
Transportation	1,219,760	1,224,924	1,224,924	-
Employee benefits	2,377,720	2,365,268	2,363,725	(1,543)
	<u>18,359,640</u>	<u>18,359,640</u>	<u>18,358,097</u>	<u>(1,543)</u>
Excess Revenues over Expenditures	1,176,980	1,176,980	1,179,712	2,732
Transfers out	<u>(1,176,980)</u>	<u>(1,176,980)</u>	<u>(1,176,980)</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	2,732	<u>\$ 2,732</u>
Fund Balance at Beginning of Year			<u>4,382</u>	
Fund Balance at End of Year			<u>\$ 7,114</u>	

The accompanying notes are an integral part of the financial statements

**REGIONAL SCHOOL DISTRICT NO. 19
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013**

	<u>Postemployment Healthcare Trust Fund</u>	<u>Memorial Scholarship Private Purpose Trust Fund</u>	<u>Agency Funds</u>
Assets:			
Cash	\$ <u>74,200</u>	\$ <u>2,853</u>	\$ <u>423,043</u>
Total assets	<u>74,200</u>	<u>2,853</u>	<u>\$ 423,043</u>
Liabilities:			
Due to students and others	<u> </u>	<u> </u>	<u>\$ 423,043</u>
Net Position:			
Net position held in trust for endowments		2,853	
Net position held in trust for OPEB benefits	<u>74,200</u>	<u> </u>	
Total Net Position	<u>\$ 74,200</u>	<u>\$ 2,853</u>	

The accompany notes are an integral part of the financial statements

REGIONAL SCHOOL DISTRICT NO. 19
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Postemployment Healthcare Trust Fund</u>	<u>Memorial Scholarship Private Purpose Trust Fund</u>
Additions:		
Contributions:		
Employer	\$ 37,400	\$
Investment income:		
Interest and dividends		<u>5</u>
Total additions	<u>37,400</u>	<u>5</u>
Deductions:		
Benefits	16,000	
Scholarships		<u>200</u>
Total deductions	<u>16,000</u>	<u>200</u>
Change in Net Position	21,400	(195)
Net Position at Beginning of Year	<u>52,800</u>	<u>3,048</u>
Net Position at End of Year	<u>\$ 74,200</u>	<u>\$ 2,853</u>

The accompanying notes are an integral part of the financial statements

REGIONAL SCHOOL DISTRICT NO. 19

NOTES TO BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Regional School District No. 19 (the District) 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 the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant policies of the District are described below.

A. Reporting Entity

E.O. Smith High School is a public high school (Grades 9-12) serving the towns of Ashford, Mansfield and Willington. It was created by the State Legislature through Public Law 84-42. On February 11, 1986, the electorate in Ashford and Mansfield voted to establish a Regional School District to provide governance for the school. On November 2, 1993, the electors of Ashford, Mansfield and Willington voted to expand the Regional School District to include the Town of Willington.

Member voting is weighted according to the proportion of each town's population to the total regional population. Accordingly, each member from Ashford receives 0.36 votes, each member from Mansfield receives 2.16 votes and each member from Willington receives 0.48 votes.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by member town assessments, intergovernmental revenues and revenues from local sources.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Member town assessments and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Agency funds do not have a measurement focus but are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Member town assessments, expenditure reimbursement type grants, and certain intergovernmental revenues, transfers and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The major sources of revenue for this fund are intergovernmental grants and transfers.

The *Capital Projects Fund* accounts for the acquisition, construction or renovation of major capital facilities and other capital related purchases. The major sources of revenue for this fund are capital grants and proceeds from the issuance of general obligation bonds.

The *Other Operating Fund* accounts for miscellaneous programs of the District. The major sources of revenue for this fund are intergovernmental grants and charges for services.

Additionally, the District reports the following fund types:

The *Postemployment Healthcare Trust Fund* accounts for the accumulation of resources to pay retiree medical benefits.

The *Private-Purpose Trust Fund* is used to account for resources legally held in trust for scholarships. Resources of the fund, including any earnings on invested resources, may be used for student scholarships.

The *Agency Funds* account for monies held on behalf of students on a custodial capacity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements, except for any interfund services provided by one fund used by another fund. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. Unrestricted resources are used in the following order: committed, assigned then unassigned.

C. Assets, Liabilities and Net Position or Equity

Deposits and Investments

Deposits - The District considers cash equivalents as cash on hand, demand deposits, money market accounts and short-term investments with original maturities of three months or less from the date of acquisition.

The deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). Deposits may be made in a "qualified public depository" as defined by Statute, or in amounts not exceeding the Federal Deposit Insurance Corporation insurance limit in an "out of state bank," as defined by the Statutes, which is not a "qualified public depository."

Investments - Investments are reported at fair value.

Receivables

Intergovernmental and assessments from member town receivables are considered to be fully collectible, and no allowance has been recorded.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 for equipment and vehicles and \$20,000 for buildings and improvements, land and land improvements and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	45
Improvements other than buildings	45
Equipment	5-25

Deferred and Unearned Revenues

Unearned revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received before the District has legal claim to them, as when grant monies are received prior to the issuance of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has legal claim to the resource, the liability for deferred revenues is removed from the balance sheet and revenue is recognized.

Compensated Absences

Vacation earned may be accumulated by employees with the Superintendent's permission until termination of their employment, at which time they are paid for accumulated vacation. Unused sick leave may be accumulated for certain employees up to 150 days until termination, retirement or death, at which time no payments will be made. Teachers may accumulate up to 186 days until termination, retirement or death, at which time no payments will be made.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity and Net Position

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Assignments of fund balance represent tentative management plans that are subject to change.

In the government-wide financial statements, net position is classified into the following categories:

Net Investment in Capital Assets - This category presents the net position that reflects capital assets net of only the debt applicable to the acquisition or construction of these assets. Debt issued for noncapital purpose is excluded.

Restricted Net Position - This category presents the net position restricted by external parties (creditors, grantors, contributors or laws and regulations).

Unrestricted Net Position - This category presents the net position of the District that are not restricted.

The equity of the fund financial statements is defined as “fund balance” and is classified in the following categories:

Nonspendable Fund Balance - This represents amounts that cannot be spent due to form (e.g., inventories and prepaid amounts).

Restricted Fund Balance - This represents amounts constrained for a specific purpose by external parties, such as grantors, creditors, contributors or laws and regulations of their governments.

Committed Fund Balance - This represents amounts constrained for a specific purpose by a government using its highest level of decision-making authority (The Board of Education). The Board of Education commits resources through the following process: a motion is made, the motion is seconded, discussion occurs, and finally the commitment is approved through a resolution of the members of the Board.

Assigned Fund Balance - For all governmental funds other than the General Fund, this represents any remaining positive amounts not classified as nonspendable, restricted or committed. For the General Fund, this includes amounts constrained for the intent to be used for a specific purpose by the Board of Education or the Superintendent through the encumbrance process.

Unassigned Fund Balance - This represents fund balance in the General Fund in excess of nonspendable, restricted, committed and assigned fund balance. If another governmental fund has a fund balance deficit, it is reported as a negative amount in unassigned fund balance.

Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities including disclosures of contingent assets and liabilities and reported revenues, expenses and expenditures during the fiscal year.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

The District establishes its General Fund budget in accordance with provisions of the Connecticut General Statutes.

A budget for the General Fund is authorized annually by the Board of Education. The Board of Education follows these procedures in establishing the budgetary data reflected in the financial statements:

- The District legally adopts an annual budget for the General Fund pursuant to the Connecticut General Statutes Section 10-51. Formal budgetary integration is employed by the District as a management control device during the year for the General Fund. A budgetary comparison on a legal basis has been included in the appropriate financial statement and schedules, and a budgetary to GAAP reporting reconciliation has been provided in Note 2B, Budget to GAAP Reconciliation. The Capital Projects Fund employs a project length budget, which is approved by the Regional Board of Education.
- Prior to January, each department head or other agency as designated by the Superintendent submits budget requests accompanied by detailed estimates of expenditures to be made and, where appropriate, revenues to be collected during the ensuing fiscal year.
- During February and March, the Superintendent presents to the Board of Education (the Board) the revenue and expenditure detail for their consideration.
- Not less than two weeks before the annual meeting, which must be held on the first Monday of May, the Board shall hold a public district meeting to present a proposed budget for the next fiscal year. Any person may recommend the addition or deletion of expenditures at such time.
- After the public hearing, the Board shall prepare an annual budget for the next fiscal year, make available on request copies thereof and deliver a reasonable number of copies to the Town Clerk of each town in the Region at least five days before the annual meeting.
- At the annual meeting, the Board shall present a budget which includes statements of 1) estimated receipts and expenditures for the next fiscal year, 2) estimated receipts and expenditures for the current fiscal year, 3) estimated surplus or deficit in operation funds at the end of the current fiscal year, 4) bonded or other debt, 5) estimated per pupil expenditure for the current and for the next fiscal year, and 6) such other information as is necessary in the opinion of the Board.
- Persons present and eligible to vote may accept or reject the proposed budget. If a majority of such persons voting reject the budget, the Board shall, within two weeks thereafter and upon notice of not less than one week, call a District meeting to consider the same or an amended budget. Such meetings shall be convened at such intervals until a budget is approved.
- After the budget is approved, the Board shall estimate the share of the net expenditures to be paid by each member town in accordance with Connecticut General Statutes Section 10-51, and notify the respective District treasurer thereof.
- If the Board needs to submit a supplementary budget, the general procedures as outlined above shall be used.
- The level of control for a legally adopted budget (the level at which expenditures may not legally exceed appropriations without Board approval) is at the program level, except that

the Superintendent has the authority to make budgetary transfers up to \$1,000 between programs. Transfers in excess of \$1,000 must be approved by the Board.

- The Board does not have the authority to expend beyond the total budget appropriation without District meeting approval. No additional appropriations were made during the year.
- Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which the purchase order, contract or other commitment is issued, and, accordingly, encumbrances outstanding at year end are reported in budgetary reports as expenditures in the current year. Generally, all unencumbered appropriations lapse at year end, except those for the Capital Projects Funds. Appropriations for capital projects are continued until completion of applicable projects, even when projects extend more than one fiscal year.

B. Budget to GAAP Reconciliation

A reconciliation of revenues and expenditures, between the accounting treatment required by GAAP (Exhibit IV) and budgetary requirements (Exhibit V), at June 30, 2013 is as follows:

	<u>Revenues</u>	<u>Expenditures and Transfers</u>
Balance, budgetary basis, Exhibit V	\$ 19,537,809	\$ 19,535,077
Prior year encumbrances cancelled	(84,856)	
Prior year encumbrances liquidated		149,562
Current year encumbrances		(221,366)
Workers compensation fund revenues are not budgeted	8,516	
Workers compensation fund expenditures are not budgeted		89,007
Transfers to the workers' compensation fund are budgeted, but eliminated for GAAP		(82,210)
State Teachers' Retirement on-behalf payment	<u>1,891,748</u>	<u>1,891,748</u>
Balance, GAAP Basis, Exhibit IV	<u>\$ 21,353,217</u>	<u>\$ 21,361,818</u>

3. DETAILED NOTES

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

The deposit of public funds is controlled by the Connecticut General Statutes (Section 7-402). Deposits may be made in a “qualified public depository” as defined by Statute or, in amounts not exceeding the Federal Deposit Insurance Corporation insurance limit, in an “out of state bank” as defined by the Statutes, which is not a “qualified public depository.”

The Connecticut General Statutes (Section 7-400) permit municipalities to invest in: 1) obligations of the United States and its agencies, 2) highly rated obligations of any state of the United States or of any political subdivision, authority or agency thereof, and 3) shares or other interests in custodial arrangements or pools maintaining constant net asset values and in highly rated no-load open end money market and mutual funds (with constant or fluctuating net asset values) whose portfolios are limited to obligations of the United States and its agencies, and repurchase agreements fully collateralized by such obligations. Other provisions of the Statutes cover specific municipal funds with particular investment authority. The provisions of the Statutes regarding the investment of municipal pension funds do not specify permitted investments. Therefore, investment of such funds is generally controlled by the laws applicable to fiduciaries and the provisions of the applicable plan.

The Statutes (Sections 3-24f and 3-27f) also provide for investment in shares of the State Short-Term Investment Fund (STIF) and the State Tax Exempt Proceeds Fund (TEPF). These investment pools are under the control of the State Treasurer, with oversight provided by the Treasurer’s Cash Management Advisory Board, and are regulated under the State Statutes and subject to annual audit by the Auditors of Public Accounts. Investment yields are accounted for on an amortized-cost basis with an investment portfolio that is designed to attain a market-average rate of return throughout budgetary and economic cycles. Investors accrue interest daily based on actual earnings, less expenses and transfers to the designated surplus reserve, and the fair value of the position in the pool is the same as the value of the pool shares.

Deposits

Deposit Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the District’s deposit will not be returned. The District does not have a deposit policy for custodial credit risk.

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, \$319,266 of the District’s bank balance of \$598,711 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	262,339
Collateralized, held by banks		<u>56,927</u>
Total Amount Subject to Custodial Credit Risk	\$	<u>319,266</u>

Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository's risk based capital ratio.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and purchased within 90 days of maturity. At June 30, 2013, the District's cash equivalents amounted to \$2,644,707. The following table provides a summary of the District's cash equivalents (excluding U.S. government guaranteed obligations) as rated by nationally recognized statistical rating organizations. The pools all have maturities of less than one year.

	<u>Standard & Poor's</u>
State Short-Term Investment Fund (STIF)	AAAm

Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - Investments - As indicated above, State Statutes limit the investment options of municipal entities. The District does not have an investment policy that further limits the investment options of the Regional School District beyond that of the State Statutes.

Concentration of Credit Risk - The District has no policy limiting an investment in any one issuer that is in excess of 5% of the District's total investments.

Custodial Credit Risk - Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (the institution that pledges collateral or repurchase agreement securities to the District or that sells investments to or buys them for the District), the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a policy for custodial credit risk. At June 30, 2013, the District did not have any uninsured and unregistered securities held by the counterparty, or by its trust department or agent that were not in the District's name.

B. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unearned</u>
Education grants	\$ 7,067

C. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 858,508	\$	\$	\$ 858,508
Construction in progress	<u>2,308,333</u>	<u>7,497</u>	<u>2,315,830</u>	<u>-</u>
Total capital assets not being depreciated	<u>3,166,841</u>	<u>7,497</u>	<u>2,315,830</u>	<u>858,508</u>
Capital assets being depreciated:				
Buildings	44,273,539			44,273,539
Leasehold improvements	2,788,051	34,570		2,822,621
Improvements other than buildings	1,687,277	2,118,812		3,806,089
Equipment	<u>999,810</u>	<u>473,065</u>	<u>24,479</u>	<u>1,448,396</u>
Total capital assets being depreciated	<u>49,748,677</u>	<u>2,626,447</u>	<u>24,479</u>	<u>52,350,645</u>
Less accumulated depreciation for:				
Buildings	12,025,963	836,278		12,862,241
Leasehold improvements	250,925	126,614		377,539
Improvements other than buildings	859,769	90,700		950,469
Equipment	<u>566,630</u>	<u>106,584</u>	<u>23,839</u>	<u>649,375</u>
Total accumulated depreciation	<u>13,703,287</u>	<u>1,160,176</u>	<u>23,839</u>	<u>14,839,624</u>
Total capital assets being depreciated, net	<u>36,045,390</u>	<u>1,466,271</u>	<u>640</u>	<u>37,511,021</u>
Governmental Activities Capital Assets, Net	<u>\$ 39,212,231</u>	<u>\$ 1,473,768</u>	<u>\$ 2,316,470</u>	<u>\$ 38,369,529</u>

Depreciation expense of \$1,160,176 was charged to the functions/programs of the District as follows:

Instructional programs	\$ 14,433
Guidance services	19,079
General administration	1,116,510
Student activities	7,775
Transportation	<u>2,379</u>
Total Depreciation Expense	<u>\$ 1,160,176</u>

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at June 30, 2013 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Projects Fund	\$ 403,177
General Fund	Other Operating Fund	6,787
General Fund	Nonmajor Governmental - Education Grants Fund	<u>187,344</u>
Total		<u>\$ 597,308</u>

A summary of interfund transfers as of June 30, 2013 is as follows:

	Transfers In			Total Transfers Out
	Debt Service Fund	Capital Projects Fund	Other Operating Fund	
Transfers out:				
General Fund	\$ 900,000	\$ 200,000	\$ 55,580	\$ 1,155,580
Debt Service Fund		50,000		50,000
Total Transfers In	<u>\$ 900,000</u>	<u>\$ 250,000</u>	<u>\$ 55,580</u>	<u>\$ 1,205,580</u>

During the year transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, and 2) to move general fund resources to the capital projects fund for approved capital projects.

E. Changes in Long-Term Obligations

Summary of Changes

The following is a summary of changes in long-term obligations during the fiscal year:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
Bonds payable:					
General obligation bonds	\$ 12,337,000	\$	\$ 2,157,000	\$ 10,180,000	\$ 2,110,000
Less deferred amounts:					
Bond premium	106,486		15,227	91,259	
Deferred charge on refunding	(222,000)		(37,000)	(185,000)	
Total bonds payable	<u>12,221,486</u>	<u>-</u>	<u>2,135,227</u>	<u>10,086,259</u>	<u>2,110,000</u>
Compensated absences	125,569	148,766	120,373	153,962	30,792
Net OPEB obligation	<u>23,577</u>	<u>4,104</u>		<u>27,681</u>	
Total Long-Term Liabilities, Governmental Activities	<u>\$ 12,370,632</u>	<u>\$ 152,870</u>	<u>\$ 2,255,600</u>	<u>\$ 10,267,902</u>	<u>\$ 2,140,792</u>

All long-term liabilities other than debt are generally liquidated by the General Fund. Debt is generally liquidated by the Debt Service Fund.

The annual requirements to amortize all bonds payable as of June 30, 2013 and the amounts to be provided by the State of Connecticut for the retirement of school bonds and of debt principal and interest maturities are as follows:

<u>Year Ending June 30,</u>	<u>To Be Provided by State</u>		<u>Bond Principal</u>	<u>Bond Interest</u>
	<u>For Principal</u>	<u>For Interest</u>		
2014	\$ 1,349,695	\$ 241,636	\$ 2,110,000	\$ 290,525
2015	1,339,479	188,602	2,065,000	235,838
2016	1,329,264	134,380	2,030,000	176,163
2017	1,118,144	79,000	1,695,000	119,388
2018	685,689	30,968	1,040,000	70,088
2019-2023			775,000	152,286
2024-2026			465,000	32,938
	<u>\$ 5,822,271</u>	<u>\$ 674,586</u>	<u>\$ 10,180,000</u>	<u>\$ 1,077,226</u>

Outstanding debt by issue is as follows:

	<u>Issued</u>	<u>Original Amount</u>	<u>Year of Maturity</u>	<u>Interest Rate %</u>	<u>Balance June 30, 2013</u>
Refunding General obligation bonds	4/22/2009	18,325,000	2018	2.0-5.0	\$ 8,165,000
	6/23/2011	2,167,000	2026	1.75-3.75	<u>2,015,000</u>
					<u>\$ 10,180,000</u>

Statutory Debt Limitations

The District's indebtedness does not exceed the legal debt limitations as required by Connecticut General Statutes. The statutes allow for debt up to 2.25 times the annual receipts of taxation of the member towns. The District's debt limitation is as follows:

<u>Category</u>	<u>Debt Limit</u>	<u>Net Indebtedness</u>	<u>Balance</u>
Schools	\$ 107,437,073	\$ 4,263,990	\$ 103,173,083

School building grants receivable of \$5,822,269, included in the calculation for bond principal, are reflected as deductions in the computation of net indebtedness.

Authorized/Unissued Bonds

At June 30, 2013, the District had no authorized and unissued bonds.

4. RISK MANAGEMENT

The District is exposed to various risks of loss related to public officials; Board of Education liability; torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees or acts of God. The District purchases commercial insurance for all risks of loss, except for medical insurance. Settled claims have not exceeded commercial coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from coverage in the prior year.

Hospitalization and medical-surgical health coverage for District employees are administered by the Town of Mansfield (the Town) on behalf of the District. The Town operates the Mansfield Health Insurance Fund (the Fund), which has been recorded in the Town's records as an Internal Service Fund. The Fund's general objectives are to formulate, on behalf of the members, a health insurance program at lower costs of coverage and to develop a systematic method to control health costs.

A third party administers the plan through a contract with the Town for which the Fund pays a fee. The contract period is for calendar year 2013.

The Fund has purchased aggregate stop loss coverage at 125 percent of expected claims. In addition to the aggregate stop loss, the Fund has also purchased \$150,000 of combined medical-surgical and major medical individual stop loss.

The claim liability of \$409,000 for the Fund is based on the requirements of GASB Statement Nos. 10 and 30, which require that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is possible that a liability has been incurred at the date of the financial statements and the amount of the possible loss can be reasonably estimated. The amount of the claim accrual is based on the ultimate costs of settling the claim which includes past experience data, inflation and other future economic and societal factors and incremental claim adjustment expenses, net of estimated subrogation recoveries. The claim accrual does not include other allocated or unallocated claims adjustment expenses.

For the period ended June 30, 2013, the District's General Fund made premium payments into the Fund of \$1,728,885.

The District is a member of the Connecticut Interlocal Risk Management Agency (CIRMA), an unincorporated association of Connecticut local public agencies, which was formed in 1980 by the Connecticut Conference of Municipalities for the purpose of establishing and administering an interlocal risk management program pursuant to the provisions of Section 7-479a et. seq. of the Connecticut General Statutes.

5. PENSION PLANS

Plan Description

District noncertified personnel, including clerical staff and janitorial staff, participate in the Municipal Employees' Retirement System (MERS), a cost-sharing, multiple employer public employee retirement system (PERS) established by the State of Connecticut and administered by the State Retirement Commission to provide pension benefits for the employees of participating municipalities. MERS is considered to be part of the State of Connecticut's financial reporting entity and is included in the State's financial reports as a pension trust fund. MERS issues a

publicly available financial report that may be obtained by writing to the State of Connecticut, Office of the State Comptroller, Municipal Employees Retirement Fund, 55 Elm Street, Hartford, CT 06106.

Benefit Provisions

Plan provisions are set by Statute of the State of Connecticut. MERS provides retirement benefits, as well as death and disability benefits. All benefits vest after 10 years of continuous service. Members who retire after age 55 with 10 years of continuous service or after 25 years of service, irrespective of age, are entitled to an annual retirement benefit, payable monthly for life.

Contributions Required and Contributions Made

Each participating municipality is required by State Statute to pay an actuarially determined percentage of covered payroll to provide for benefits based on current service. Covered employees are required by State Statute to contribute 2¼% of earnings upon which Social Security tax is paid plus 5% of earnings on which no Social Security tax is paid. Each participating municipality is required to contribute the amounts necessary to finance the remaining cost of the Plan.

Contributions were made as follows:

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
6/30/11	\$ 153,573	100%
6/30/12	198,983	100
6/30/13	199,778	100

Teacher Retirement

All Regional School District 19 teachers participate in the State of Connecticut Teachers’ Retirement System, a cost-sharing plan with a special funding situation, under Section 10.183 of the General Statutes of the State of Connecticut. This is a multiple-employer PERS. A teacher is eligible to receive a normal retirement benefit if he or she has:

- Attained age 60 and has accumulated 20 years of credited service in the public schools of Connecticut, or;
- Attained any age and has accumulated 35 years of credited service, at least 25 of which are service in the public schools of Connecticut.

The Board of Education withholds 7.25% of all teachers’ annual salaries and transmits the funds to the State Teachers’ Retirement Board. Teacher payroll subject to retirement amounted to \$9,187,895.

The retirement system for teachers is funded by the State based upon the recommendation of the Teacher’s Retirement Board. Such contribution includes amortization of the actuarially computed unfunded liability. For the year ended June 30, 2013, the District has recorded in the General Fund intergovernmental revenue, instruction program expenditures and curriculum development expenditures in the amount of \$1,891,748 as payments made by the State of Connecticut on behalf of the District. The district does not have any liability for teacher pensions.

The State of Connecticut Teacher Retirement System is considered to be a part of the State of Connecticut financial reporting entity and is included in the State's financial reports as a pension trust fund. Those reports may be obtained by writing to the State of Connecticut, Office of the State Comptroller, 55 Elm Street, Hartford, Connecticut 06106.

6. CONTINGENT LIABILITIES

There are various lawsuits and claims pending against the District, the ultimate effect of which, if any, cannot presently be determined; however, the ultimate resolution of these matters is not expected to have a material adverse effect on the financial condition of the District.

State and Federal grants received by the District are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for any expenditures disallowed under terms of the grant. The amount, if any, of expenditures, which may be disallowed, cannot be determined at this time, although the District's management believes such disallowance, if any, will be immaterial.

7. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The District, in accordance with various collective bargaining agreements and State Statutes, is committed to providing health and other benefits to certain eligible retirees and their spouses. The Other Postemployment Benefit (OPEB) program covers the District's teachers and administrators. Under the various collective bargaining agreements, retirees and beneficiaries currently receiving benefits are required to contribute specified percentages towards the cost of receiving those benefits. The District does not issue a separate stand-alone financial statement for this program.

At July 1, 2012, District's plan membership consisted of the following:

	Post Employment Healthcare Trust
	<hr/>
Retired participants	2
Spouses of retirees	-
Active plan members	<hr/> 153
Total	<hr/> <hr/> 155

Funding Policy

The District administers a single-employer, postemployment health care plan to provide medical benefits for eligible retirees and their spouses. Retirees bear the full cost of their coverage. However, based on a July 1, 2012 OPEB actuarial valuation, the District's annual required contribution (ARC) is \$16,000 to cover the implicit rate subsidy. Beginning July 1, 2009, the District began to account for and fund the ARC in a Postemployment Healthcare Trust. The

District plans to continue a funding strategy that provides for normal cost and the amortization of the accrued liability as recommended in its OPEB actuarial study. The study accounts for numerous factors such as turnover and retirement rates, mortality assumptions, medical inflation and claims cost assumptions, and discount rate assumptions.

Eligibility and benefit is based on several factors:

- Eligibility for benefits and the level of benefits are determined by collective bargaining unit agreement or contract.
- Retirees pay the full cost of the coverage.
- At age 65, some retirees receive a stipend from the State of Connecticut Teachers' Retirement System towards the cost of their coverage.
- At age 65, some retirees have the option to take Medicare and medical insurance through the State of Connecticut Teachers' Retirement System.

The cost per month for District employees receiving medical coverage is \$603 per month for retiree only coverage and \$1,262 per month for retiree and spouse coverage to age 65. The cost per month for District employees receiving dental coverage is \$34 per month for retiree only coverage and \$67 per month for retiree and spouse coverage to age 65.

Annual OPEB Cost and Net OPEB Obligations

The District's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

	Post Employment Healthcare Trust
Annual required contribution (ARC)	\$ 42,000
Interest on net OPEB obligation	1,768
Adjustment to annual required contribution	<u>(2,264)</u>
Annual OPEB Cost	41,504
Contributions made	<u>37,400</u>
Increase in net OPEB obligation	4,104
Net OPEB obligation - beginning of year	<u>23,577</u>
Net OPEB Obligation - End of Year	<u><u>\$ 27,681</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the fiscal years ended June 30, 2013, 2012 and 2011 is presented below.

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Actual Contribution</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2011	\$ 33,247	\$ 33,200	99.86%	\$ 20,164
6/30/2012	40,613	37,200	91.60%	23,577
6/30/2013	41,504	37,400	90.11%	27,681

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as accrual results are compared with past expectations and new estimates are made about the future.

Schedule of Employer Contributions

<u>Schedule of Employer Contributions</u>			
<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
6/30/2011	\$ 33,600	\$ 33,200	98.81%
6/30/2012	41,000	37,200	90.73%
6/30/2013	42,000	37,400	89.05%

Schedule of Funding Progress

<u>Schedule of Funding Progress</u>						
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
7/1/2008	\$ -	\$ 223,600	\$ 223,600	0.00%	\$ 9,768,000	2.29%
7/1/2010	17,600	268,900	251,300	6.55%	10,070,000	2.50%
7/1/2012	53,000	330,000	277,000	16.06%	10,379,000	2.67%

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

In the July 1, 2012 actuarial valuation of the District's Plan, the Projected Unit Credit Cost Method was used. The actuarial assumptions include a 7.5% investment rate-of-return, which is the rate of the expected long-term investment returns of plan assets calculated based on the funding policy of the plan at the valuation date. The annual healthcare (inflation) cost trend rate is 7.3% initially, reduced by decrements to an ultimate rate of 4.7% after 70 years for the pre-65 estimate, and after 71 years for the post-65 estimate, embedded within this healthcare cost trend rate an underlying inflation rate of 2.1% is used. The Projected salary increases were 4%, and no post-retirement benefit increase is assumed. The UAAL is being amortized as a 25-year, closed level dollar amortization.

8. FUND BALANCE

The components of fund balance for the governmental funds at June 30, 2013 are as follows:

	<u>General Fund</u>	<u>Debt Service</u>	<u>Major Special Revenue Funds</u>		<u>Nonmajor Governmental Fund Education Grants Fund</u>	<u>Total</u>
			<u>Capital Projects</u>	<u>Other Operating</u>		
Fund balances:						
Restricted for:						
Instructional programs	\$	\$	\$	\$ 7,730	\$	\$ 7,730
Debt service		378,216				378,216
Unspent grant balances					89	89
Committed to:						
Capital projects			44,244			44,244
Instructional programs				802,377		802,377
Employee benefits	29,389					29,389
Assigned to:						
Instructional programs	111,138					111,138
Guidance services	112					112
Curriculum development	12,394					12,394
Educational media	30,930					30,930
General administration	61,417					61,417
Student activities	3,811					3,811
Employee benefits	1,564					1,564
Unassigned	7,114		(429,378)			(422,264)
Total Fund Balances	\$ <u>257,869</u>	\$ <u>378,216</u>	\$ <u>(385,134)</u>	\$ <u>810,107</u>	\$ <u>89</u>	\$ <u>1,061,147</u>

Significant encumbrances at June 30, 2013 are contained in the above table in the assigned category of the General Fund in the amount of \$221,366, in the committed category of the Capital Projects Fund in the amount of \$44,244, and in the restricted category of the Nonmajor Education Grants Fund in the amount of \$89.

9. FUND DEFICITS

The Capital Projects Fund has a deficit fund balance of \$385,134. This deficit will be funded through future grant proceeds and transfers.