

**SCHOOL ADMINISTRATIVE UNIT #39**

**Financial Statements**

**June 30, 2011**

**and**

**Independent Auditor's Report**

**SCHOOL ADMINISTRATIVE UNIT #39**  
**FINANCIAL STATEMENTS**  
**June 30, 2011**

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**INDEPENDENT AUDITOR'S REPORT**

To the School Board  
School Administrative Unit #39

We have audited the accompanying financial statements of the governmental activities and each major fund of School Administrative Unit #39, as of and for the year ended June 30, 2011, which collectively comprise the SAU's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the SAU's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 and each major fund of the School Administrative Unit #39, as of June 30, 2011, 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.

The management's discussion and analysis, budgetary comparison information and the schedule of funding progress for other post-employment benefits on pages i-v and 16-18, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

*Vachon Clukay & Company PC.*

December 12, 2011

**SCHOOL ADMINISTRATIVE UNIT #39  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2011**

Presented herewith please find the Management Discussion & Analysis Report for the School Administrative Unit #39 (the SAU) for the fiscal year ending June 30, 2011. The responsibility for accuracy of the data, the completeness and fairness of this documentation (including all disclosures) rests with management. To the best of our knowledge and belief, the data contained herein is accurate in all material aspects. This report and its content have been designed to fairly present the SAU's financial position, including the results of operations of all the funds of the SAU. All the disclosures necessary to enable and to assist the reader in acquiring an accurate understanding of the SAU's financial activities have been included.

The SAU is responsible for establishing accounting and internal control structures designed to ensure that the physical, data, informational, intellectual, and human resource assets of the SAU are protected from loss, theft, and misuse, and to ensure that adequate accounting information is maintained and reported in conformity with generally accepted accounting principles (GAAP). Management also strives to ensure that these assets are put to good and effective use. The internal control structure is designed to provide reasonable assurances that these objectives are attained.

**Overview of the Financial Statements**

The financial statements presented herein include all of the activities of the SAU using the integrated approach as prescribed by GASB Statement 34.

This discussion and analysis is intended to serve as an introduction to the SAU's financial statements. The basic financial statements are comprised of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

***Government-Wide Financial Statements***

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

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

The Statement of Activities presents information showing how the SAU's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain the control over resources that have been segregated for specific activities or objectives. The SAU uses fund accounting to ensure and to demonstrate compliance with finance-related legal requirements. All the funds of the SAU are included in one category, governmental funds.

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FISCAL YEAR ENDING JUNE 30, 2011**

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 expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the SAU'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, our readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between the governmental activities Statement of Net Assets and Statement of Activities.

The SAU maintains two individual governmental funds. Information is presented separately in the governmental funds Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and E-Rate Fund which are both considered major funds.

The SAU adopts an annual appropriation budget for its governmental funds. A budgetary comparison has been provided for the General Fund to demonstrate compliance with this budget.

During the fiscal year ended June 30, 2011, the SAU implemented GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions. Statement 54 establishes new fund balance classifications and changes the definition of governmental fund types. Under Statement 54, the SAU has segregated fund balances into five classifications: Non-spendable, Restricted, Committed, Assigned, and Unassigned. Complete descriptions of the above mentioned classifications may be found beginning on Page 9 of the Notes to the Basic Financial Statements.

***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.

***Other Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

**Financial Highlights**

As of the close of the fiscal year, total assets exceeded liabilities by \$134,989 (i.e., net assets), a change of (\$4,570) from the previous year.

Governmental funds reported combined ending fund balances of \$106,066, a change of (\$7,530) from the previous year.

The General Fund shows a fund balance of \$38,982, a change of (\$26,621) from the previous year.

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FISCAL YEAR ENDING JUNE 30, 2011**

The E-Rate Fund shows a fund balance of \$67,084, a change of \$19,091 from the previous year.

Total long-term debt (i.e. capital lease payable) at the close of the current fiscal year was \$6,131 a change of (\$6,132) from the previous year.

**Comparative Analysis**

The financial statements of the SAU have been prepared in accordance with Governmental Accounting Standards Board Statement No. 34. Comparative financial analysis is provided in this statement to fiscal year ending June 30, 2010.

**Statement of Net Assets for the fiscal years ending June 30, 2011 and 2010:**

	<u>FY 2011</u>	<u>FY 2010</u>
Capital and other assets:		
Capital assets, net	\$ 84,209	\$ 83,089
Other assets	214,337	145,227
Total Assets	<u>\$ 298,546</u>	<u>\$ 228,316</u>
Long-term and other liabilities:		
Capital leases payable	\$ 6,131	\$ 12,263
Compensated absences payable	49,155	44,808
Other post-employment benefits payable		55
Other liabilities	108,271	31,631
Total Liabilities	<u>163,557</u>	<u>88,757</u>
Net Assets:		
Invested in capital assets, net of related debt	78,078	70,826
Unrestricted	56,911	68,733
Total Net Assets	<u>\$ 134,989</u>	<u>\$ 139,559</u>

**Statement of Activities for the fiscal years ending June 30, 2011 and 2010:**

	<u>FY 2011</u>	<u>FY 2010</u>
Program revenues:		
Charges for services	\$ 34,417	\$ 33,746
Total Program revenues	<u>34,417</u>	<u>33,746</u>
General revenues:		
Member assessments	1,863,423	1,817,332
Interest and investment earnings	1,045	1,706
Miscellaneous	1,557	2,457
Total General revenues	<u>1,866,025</u>	<u>1,821,495</u>
Total Revenues	<u>1,900,442</u>	<u>1,855,241</u>

**SCHOOL ADMINISTRATIVE UNIT #39  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2011**

Expenses:		
Instruction	300,380	284,356
General administration	1,392,961	1,372,712
Operation and maintenance of plant	132,172	130,262
Food service	79,499	90,211
Total Expenses	<u>1,905,012</u>	<u>1,877,541</u>
Change in net assets	(4,570)	(22,300)
Net assets, beginning of year	<u>139,559</u>	<u>161,859</u>
Net assets, end of year	<u>\$ 134,989</u>	<u>\$ 139,559</u>

***Financial Analysis***

**Government-Wide**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$134,989, a change of (\$4,570) from the previous year. See page 4 of the Basic Financial Statements for a detailed reconciliation.

**Governmental Funds**

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

As of June 30, 2011, Total Governmental Funds reported combined ending fund balances of \$106,066, a net change of (\$7,530) in comparison with the previous year.

Note that this year the SAU has implemented the provisions of Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement will cause the components of the Fund Balance to be presented differently when compared to prior years.

Assigned Fund Balances account for the largest percentage of the General Fund Balance and include \$36,076 designated to offset the subsequent fiscal year tax and \$2,647 for encumbrances. The General Fund also includes a Non-spendable component of \$259 which represents prepaid expenses. The E-Rate Fund includes an Assigned Fund Balance of \$64,298 for information technology services and equipment and a Non-spendable Fund Balance of \$2,786 for prepaid expenses. Please see Note 11 of the Notes to Basic Financial Statements for additional information.

**General Fund Budgetary Highlights**

Budgetary information for the major governmental funds (the General Fund) is included in the Required Supplementary Information section. The budgetary information is not presented for the E-Rate Fund as it is neither practical nor meaningful.

**SCHOOL ADMINISTRATIVE UNIT #39  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2011**

There was no difference between the original and final budgets for the General Fund in the current fiscal year. Actual revenues on the budgetary basis exceeded the budgeted amount by \$1,650. A significant portion of this difference is due to additional funds received for interest. Actual expenditures on the budgetary basis were \$14,132 lower than expected. Savings were realized in all areas of operation See Schedule on page 16 for additional information.

**Capital Assets**

The SAU considers a capital asset to be an asset whose cost equals or exceeds \$5,000 and has a useful life of greater than two years. Assets are depreciated using the straight-line method over the course of their useful life. See Note 5 in the notes to the basic financial statements for additional information on the capital assets activity.

**Long-Term Obligations**

During fiscal year 2011 the SAU showed a decrease in capital leases payable of (\$6,132) as a result of scheduled payments. Compensated absences had a net increase in potential future payments of \$4,347. Other post-employment benefits had a net decrease in potential future payments of (\$55). See Notes 8 and 9 in the Notes to the Basic Financial Statements for a summary of all outstanding long-term obligations.

**Contacting SAU's Financial Management**

This financial report serves to provide our citizens and creditors with a general overview of the SAU's finances and to show accountability for the money it receives. If you have questions about this report or need to get additional information, contact SAU #39 Business Office at 1 School Street – PO Box 849, Amherst, NH 03031-0849.

EXHIBIT A  
SCHOOL ADMINISTRATIVE UNIT #39  
Statement of Net Assets  
June 30, 2011

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 150,698
Accounts receivable	1,084
Due from other governments	59,510
Prepaid expenses	3,045
Total current assets	<u>214,337</u>
Noncurrent assets:	
Capital assets:	
Depreciable capital assets, net	<u>84,209</u>
Total noncurrent assets	<u>84,209</u>
Total assets	<u>\$ 298,546</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 68,670
Accrued expenses	709
Due to other governments	38,392
Deferred revenue	500
Current portion of capital lease payable	<u>6,131</u>
Total current liabilities	<u>114,402</u>
Noncurrent liabilities:	
Compensated absences payable	<u>49,155</u>
Total noncurrent liabilities	<u>49,155</u>
Total liabilities	<u>163,557</u>
NET ASSETS	
Invested in capital assets, net of related debt	78,078
Unrestricted	<u>56,911</u>
Total net assets	<u>134,989</u>
Total liabilities and net assets	<u>\$ 298,546</u>

*See accompanying notes to the basic financial statements*

EXHIBIT B  
**SCHOOL ADMINISTRATIVE UNIT #39**  
**Statement of Activities**  
For the Year Ended June 30, 2011

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>	Net (Expense) Revenue and Changes in Net Assets
		Charges for <u>Services</u>	Governmental <u>Activities</u>
Governmental Activities:			
Instruction	\$ 300,380		\$ (300,380)
General administration	1,392,961	\$ 34,417	(1,358,544)
Operation and maintenance of plant	132,172		(132,172)
Food service	79,499		(79,499)
Total governmental activities	<u>\$ 1,905,012</u>	<u>\$ 34,417</u>	<u>(1,870,595)</u>
General revenues:			
Member assessments			1,863,423
Interest income			1,045
Miscellaneous			<u>1,557</u>
Total general revenues			<u>1,866,025</u>
Change in net assets			(4,570)
Net assets - beginning			<u>139,559</u>
Net assets - ending			<u>\$ 134,989</u>

*See accompanying notes to the basic financial statements*

EXHIBIT C  
SCHOOL ADMINISTRATIVE UNIT #39  
Balance Sheet  
Governmental Funds  
June 30, 2011

	General Fund	E-Rate Fund	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 150,698		\$ 150,698
Accounts receivable	1,084		1,084
Due from other governments	2,028	\$ 57,482	59,510
Due from other funds		11,070	11,070
Prepaid expenses	259	2,786	3,045
Total assets	<u>\$ 154,069</u>	<u>\$ 71,338</u>	<u>\$ 225,407</u>
Liabilities:			
Accounts payable	\$ 64,707	\$ 3,963	\$ 68,670
Accrued expenses	709		709
Due to other governments	38,101	291	38,392
Due to other funds	11,070		11,070
Deferred revenue	500		500
Total liabilities	<u>115,087</u>	<u>4,254</u>	<u>119,341</u>
Fund balances:			
Nonspendable	259	2,786	3,045
Assigned	<u>38,723</u>	<u>64,298</u>	<u>103,021</u>
Total fund balances	<u>38,982</u>	<u>67,084</u>	<u>106,066</u>
Total liabilities and fund balances	<u>\$ 154,069</u>	<u>\$ 71,338</u>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds			84,209
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities at year end consist of:			
Capital lease payable			(6,131)
Compensated absences			<u>(49,155)</u>
Net assets of governmental activities			<u>\$ 134,989</u>

See accompanying notes to the basic financial statements

EXHIBIT D  
SCHOOL ADMINISTRATIVE UNIT #39  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2011

	General Fund	E-Rate Fund	Total Governmental Funds
Revenues:			
Member assessments	\$ 1,863,423		\$ 1,863,423
Charges for services		\$ 34,417	34,417
Interest income	1,045		1,045
Miscellaneous	605	952	1,557
Total Revenues	<u>1,865,073</u>	<u>35,369</u>	<u>1,900,442</u>
Expenditures:			
Current operations:			
Instruction	285,306		285,306
General administration	1,367,759	16,278	1,384,037
Operation and maintenance of plant	159,130		159,130
Food service	79,499		79,499
Total Expenditures	<u>1,891,694</u>	<u>16,278</u>	<u>1,907,972</u>
Net change in fund balances	(26,621)	19,091	(7,530)
Fund balances at beginning of year	<u>65,603</u>	<u>47,993</u>	<u>113,596</u>
Fund balances at end of year	<u>\$ 38,982</u>	<u>\$ 67,084</u>	<u>\$ 106,066</u>

SCHOOL ADMINISTRATIVE UNIT #39 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2011	
Change in Fund Balances - Total Governmental Funds	\$ (7,530)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	1,120
Repayment of principal on capital leases payable is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets.	6,132
Some expenses reported in the statement of activities, such as compensated absences and other post-employment benefits, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(4,292)
Change in Net Assets of Governmental Activities	\$ (4,570)

See accompanying notes to the basic financial statements

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of School Administrative Unit #39 conform to accounting principles generally accepted in the United States of America for local educational units of government, except as indicated hereinafter. The following is a summary of significant accounting policies.

***Financial Reporting Entity***

School Administrative Unit #39 (the SAU) is an independent governmental entity organized under the laws of the State of New Hampshire to provide public administrative services to the Souhegan Cooperative, Amherst and Mont Vernon School Districts. The SAU's legislative body consists of School Board members from the member Districts.

The SAU has no other separate organizational units, which meet criteria for inclusion in the financial statements as defined by the Governmental Accounting Standards Board (GASB).

***Basis of Presentation***

The SAU's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**1. Government-Wide Financial Statements:**

The statement of net assets and the statement of activities display information about the SAU as a whole. These statements include the financial activities of the primary government.

The statement of net assets presents the financial condition of the governmental activities of the SAU at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the SAU's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the SAU. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the SAU.

**2. Fund Financial Statements:**

During the year, the SAU segregates transactions related to certain SAU functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the SAU at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column.

SCHOOL ADMINISTRATIVE UNIT #39  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011

*Fund Accounting*

The SAU uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The SAU solely employs the use of governmental funds.

**Governmental Funds:**

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the SAU's major governmental funds:

The *General Fund* is the main operating fund of the SAU and is used to account for all financial resources except those required to be accounted for in another fund.

The *E-Rate Fund* accounts for the financial transactions related to various revenues and expenditures with respect to information technology equipment and services provided through the SAU to its member districts.

*Measurement Focus*

**1. Government-Wide Financial Statements:**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the SAU are included on the Statement of Net Assets.

**2. Fund Financial Statements:**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared.

*Basis of Accounting*

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2011

In the government-wide financial statements, private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The SAU has elected not to follow the FASB pronouncements issued subsequent to November 30, 1989.

**1. Revenues – Exchange and Non-exchange Transactions:**

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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the SAU, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the SAU receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the SAU must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the SAU on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: interest and grants.

**2. Expenses/Expenditures:**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

***Budgetary Data***

The SAU's budget represents functional appropriations as authorized by SAU Board meetings. The SAU's board may transfer funds between operating categories as they deem necessary. The SAU adopts its budget under State regulations, which differ somewhat from accounting principles generally accepted in the United States of America in that the focus is on the entire governmental unit rather than on the basis of fund types.

State law requires balanced budgets but allows the use of beginning fund balance to reduce the property tax rate. For the year ended June 30, 2011, the SAU applied \$47,205 of its unappropriated fund balance to reduce taxes.

SCHOOL ADMINISTRATIVE UNIT #39  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2011

*Encumbrance Accounting*

Encumbrance accounting, under which purchase orders and other commitments for expenditure of monies are recorded in order to reserve a portion of the applicable appropriation, is employed as an extension of formal budgetary integration in Governmental Funds. Encumbrances outstanding at year end are reported as a component of fund balance since they do not constitute expenditures or liabilities, but rather commitments related to unperformed contracts for goods and services.

*Capital Assets*

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the date received. The SAU maintains a capitalization threshold of \$5,000. The SAU does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Building and improvements	25
Software and office equipment	5

*Compensated Absences*

Employees earn vacation and sick leave as they provide services. SAU employees may accumulate (subject to certain limitations) unused vacation and sick pay earned and upon severance of employment, will be compensated for such amounts at current rates of pay.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee death or retirement. The entire compensated absences liability is reported on the government-wide financial statements.

*Accrued Liabilities and Long-Term Obligations*

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as liabilities in the fund financial statements only to the extent that they are due for payment during the current fiscal year.

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2011

Long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

***Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the SAU or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The SAU's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

***Fund Balance Policy***

During the year ended June 30, 2011, the SAU implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement 54 establishes new fund balance classifications and changes the definition of governmental fund types. Under Statement 54, the SAU has segregated fund balance into five classifications: Non-spendable, Restricted, Committed, Assigned, and Unassigned. The components of fund balance are defined as follows:

- Non-spendable Fund Balance: Amounts that are not in a spendable form or are required to be maintained intact.
- Restricted Fund Balance: Amounts constrained to specific purposes by their providers through constitutional provisions or by enabling legislation.
- Committed Fund Balance: Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- Assigned Fund Balance: Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned Fund Balance: Amounts that are available for any purpose; these amounts are reported only in the General Fund.

The fund balance of the SAU may only be committed for specific purposes pursuant to formal action of the SAU Board. The SAU Board delegates to the Superintendent of Schools the authority to assign amounts to be used for specific purposes. The SAU Board will return to the Towns, any unassigned fund balance at fiscal year end, to be used to offset the subsequent fiscal year's tax rate.

The SAU's policy is to first apply restricted resources when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications may be applied, committed resources are to be applied first, followed by assigned and unassigned.

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2011

***Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates. Significant estimates include depreciation expense.

**NOTE 2—RISK MANAGEMENT**

The SAU is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2011, the SAU was a member of the Local Government Center (LGC). The SAU currently reports all of its risk management activities in its General Fund. This Trust is classified as a "Risk Pool" in accordance with accounting principles generally accepted in the United States of America.

The Trust agreement permits the Trust to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. Accounting principles generally accepted in the United States of America require members of pools with a sharing of risk to determine whether or not such assessment is probable and, if so, a reasonable estimate of such assessment. At this time, the Trust foresees no likelihood of an additional assessment for any of the past years. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Based on the best available information there is no liability at June 30, 2011.

***Property and Liability Insurance***

LGC provides certain property and liability insurance coverages to member school districts and school administrative units within New Hampshire. As a member of LGC, the SAU shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program. For the year ended June 30, 2011, the Trust retained \$500,000 of each loss, up to an aggregate of \$1,000,000. Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

***Worker's Compensation***

LGC provides statutory worker's compensation coverage to member towns, cities, and other qualified political subdivisions of New Hampshire. The Trust is self-sustaining through annual member premiums and provides coverage for the statutorily required workers' compensation benefits and employer's liability coverage up to \$2,000,000. The program includes a Loss Fund from which is paid up to \$500,000 for each and every covered claim.

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2011

**NOTE 3—DEPOSITS**

The SAU has combined the cash resources of its governmental funds. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance. Deposits as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and cash equivalents	<u>\$ 150,698</u>

Deposits at June 30, 2011 consist of the following:

Deposits with financial institutions	<u>\$ 150,698</u>
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The School Administrative Unit's investment policy for governmental funds requires that deposits and investments be made in New Hampshire based financial institutions that are participants in one of the federal depository insurance programs. The SAU's deposits with financial institutions consist solely of demand deposits.

**NOTE 4—DUE FROM OTHER GOVERNMENTS**

Receivables from other governments at June 30, 2011 totaling \$3,045 consist entirely of balances owed by member districts for services provided through the SAU. All receivables are considered collectible in full and will be received within one year.

**NOTE 5—CAPITAL ASSETS**

The following is a summary of changes in capital assets:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
Capital assets:				
Building and improvements		\$ 26,400		\$ 26,400
Software and office equipment	<u>\$ 203,226</u>			<u>203,226</u>
Total capital assets at historical cost	<u>203,226</u>	<u>26,400</u>	<u>\$ -</u>	<u>229,626</u>
Less accumulated depreciation for:				
Building and improvements		(176)		(176)
Software and office equipment	<u>(120,137)</u>	<u>(25,104)</u>		<u>(145,241)</u>
Total accumulated depreciation	<u>(120,137)</u>	<u>(25,280)</u>	<u>-</u>	<u>(145,417)</u>
Total capital assets, net	<u>\$ 83,089</u>	<u>\$ 1,120</u>	<u>\$ -</u>	<u>\$ 84,209</u>

Depreciation expense was charged to governmental functions as follows:

General administration	\$ 25,104
Operation and maintenance of plant	<u>176</u>
	<u>\$ 25,280</u>

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2011

The balance of the capital assets acquired through capital leases as of June 30, 2011 is as follows:

	Historical <u>Cost</u>	Accumulated <u>Depreciation</u>	Net Book <u>Value</u>
Software and office equipment	\$ <u>18,395</u>	\$ <u>(7,358)</u>	\$ <u>11,037</u>

**NOTE 6—DUE TO OTHER GOVERNMENTS**

At June 30, 2011 payables due to other governments totaling \$38,392 consist of various funds owed to the member districts, primarily for food service related reimbursements.

**NOTE 7—DEFINED BENEFIT PENSION PLAN**

*Plan Description*

The SAU contributes to the New Hampshire Retirement System (NHRS), a cost-sharing multiple-employer defined benefit pension plan administered by the NHRS Board of Trustees. The plan provides service, disability, death and vested retirement allowances to plan members and beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State legislature. The NHRS issues a publicly available financial report that includes financial statements and required supplementary information for the NHRS. That report may be obtained by writing to New Hampshire Retirement System, 54 Regional Drive, Concord, New Hampshire 03301.

*Funding Policy*

Plan members are required to contribute 5.0% of their covered salary and the SAU is required to contribute at an actuarially determined rate. The SAU's contribution rate for the year ended June 30, 2011 was 9.16% of covered payroll to general employees.

Under state law plan member contribution rates are established and may be amended by the New Hampshire State legislature and employer contribution rates are determined by the NHRS Board of Trustees based on an actuarial valuation. The SAU's contributions to the NHRS for the years ending June 30, 2011, 2010, and 2009 were \$114,373, \$112,267, and \$103,720, respectively, equal to the required contributions for each year.

**NOTE 8—OTHER POST-EMPLOYMENT BENEFITS**

In addition to providing pension benefits, the SAU provides post-employment health care and life insurance benefits to its eligible retirees and their spouses. The SAU provides medical, prescription drug, mental health and substance abuse benefits, as well as life insurance, to retirees and their covered dependents. All active employees who retire from the SAU and meet eligibility requirements will receive these benefits. Retirees pay the full cost of the medical premium. The benefits, benefit levels, employee contributions and employer contributions are governed by RSA 100-A:50. As of July 1, 2008, the actuarial valuation date, approximately 22 retirees and 3 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2011

***Annual OPEB Costs***

The SAU's fiscal 2011 annual OPEB expense is calculated based on the annual required contribution of the employer (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 the normal cost each year and amortize the unfunded actuarial liability over a period of thirty years. The SAU's annual OPEB cost for the year ending June 30, 2011 including the amount actually contributed to the plan, and the change in the SAU's net OPEB obligation based on an actuarial valuation as of July 1, 2008 is as follows:

Annual Required Contribution (ARC)	\$ 9,937
Interest on net OPEB obligation	2
Adjustment to ARC	(3)
Annual OPEB cost	9,936
Contributions made	(9,991)
Decrease in net OPEB obligation	(55)
Net OPEB obligation - beginning of year	55
Net OPEB obligation - end of year	\$ -

The SAU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ending June 30, 2011, 2010 and 2009 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation	Covered Payroll	OPEB Cost % of Pay
6/30/2009	\$ 8,423	93.7%	\$ 531	\$ 1,198,251	0.7%
6/30/2010	\$ 8,567	105.6%	\$ 55	\$ 1,228,207	0.7%
6/30/2011	\$ 9,936	100.6%	\$ -	\$ 1,258,912	0.8%

The SAU has no net OPEB obligation as of June 30, 2011.

***Funded Status and Funding Progress for OPEB***

The funded status of the plan as of July 1, 2008, the date of the most recent actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 60,225
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 60,225
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 1,198,251
UAAL as a percentage of covered payroll	5.0%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. The total cost of providing post-employment benefits is projected, taking into account assumptions about current claim cost, turnover, mortality, health care trends, and

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2011

other actuarial assumptions. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information will provide multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits, when available.

***Actuarial Methods and Assumptions for OPEB***

Projections of benefits for financial reporting purposes are based on the plan as understood by the SAU and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the SAU and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2008 actuarial valuation the Entry Age Normal method was used. The actuarial value of assets was not determined as the SAU has not advance funded its obligation. The actuarial assumptions included a 4.0% investment rate of return and an initial annual healthcare cost trend of 10% which decreases to a 5.0% long-term rate for all healthcare benefits after seven years. The amortization costs for the initial Unfunded Actuarial Accrued Liability (UAAL) is a level percentage of payroll for a period of thirty years on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 2.5% per year.

**NOTE 9—LONG-TERM OBLIGATIONS**

***Changes in Long-Term Obligations***

The changes in the SAU's long-term obligations for the year ended June 30, 2011 are as follows:

<u>Type</u>	<u>Balance</u>			<u>Amounts</u>	
	<u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
Capital leases payable	\$ 12,263		\$ 6,132	\$ 6,131	\$ 6,131
Compensated absences payable	44,808	\$ 18,679	14,332	49,155	-
Total	<u>\$ 57,071</u>	<u>\$ 18,679</u>	<u>\$ 20,464</u>	<u>\$ 55,286</u>	<u>\$ 6,131</u>

Payments on capital leases are paid out of the General Fund. Payments on compensated absences will be paid from the fund where the employee's salary is paid.

***Capital Lease Obligations***

Capital lease obligations represent lease agreements entered into for the financing of capital asset acquisitions. These contracts are subject to cancellation should funds not be appropriated to meet payment obligations. The following is the individual capital lease payable at June 30, 2011:

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2011

Telephone system due in annual installments of \$6,361 through August 2011, interest at 3.75%	<u>\$ 6,131</u>
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Debt service requirements to retire the capital lease obligation outstanding at June 30, 2011 are as follows:

Year Ending <u>June 30,</u> 2012	<u>Principal</u> <u>\$ 6,131</u>	<u>Interest</u> <u>\$ 230</u>	<u>Totals</u> <u>\$ 6,361</u>
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**NOTE 10—INTERFUND BALANCES**

The SAU has combined the cash resources of its governmental funds. For accounting and reporting purposes, that portion of the pooled cash balance is reported in the specific fund as an interfund balance. At June 30, 2011 the General Fund has an interfund balance payable to the E-Rate Fund in the amount of \$11,070.

**NOTE 11— FUND BALANCE COMPONENTS**

The components of the SAU's fund balance for its governmental funds at June 30, 2011 are as follows:

	<u>General Fund</u>	<u>E-Rate Fund</u>
Nonspendable:		
Prepaid expenses	\$ 259	\$ 2,786
Assigned for:		
Encumbrances	2,647	
Information technology services and equipment		64,298
Designated to offset subsequent fiscal year tax rate	<u>36,076</u>	
	<u>\$ 38,982</u>	<u>\$ 67,084</u>

**NOTE 12—CONTINGENT LIABILITIES**

***Litigation***

There are various claims and suits pending against the SAU, which arise in the normal course of the SAU's activities. In the opinion of legal counsel and SAU management, the potential claims against the SAU, which are not covered by insurance are immaterial and would not affect the financial position of the SAU.

SCHEDULE 1  
SCHOOL ADMINISTRATIVE UNIT #39  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Budgetary Basis) - General Fund  
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Member assessments	\$ 1,863,423	\$ 1,863,423	\$ 1,863,423	\$ -
Interest income			1,045	1,045
Miscellaneous			605	605
Total Revenues	<u>1,863,423</u>	<u>1,863,423</u>	<u>1,865,073</u>	<u>1,650</u>
Expenditures:				
Current operations:				
Instruction	281,693	284,295	282,855	1,440
General administration	1,389,283	1,379,761	1,367,176	12,585
Operation and maintenance of plant	152,487	159,407	159,300	107
Food service	87,165	87,165	79,499	7,666
Total Expenditures	<u>1,910,628</u>	<u>1,910,628</u>	<u>1,888,830</u>	<u>14,132</u>
Net change in fund balance	(47,205)	(47,205)	(23,757)	15,782
Fund balance at beginning of year				
- Budgetary Basis	<u>60,092</u>	<u>60,092</u>	<u>60,092</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 12,887</u>	<u>\$ 12,887</u>	<u>\$ 36,335</u>	<u>\$ 15,782</u>

See accompanying notes to the required supplementary information

SCHEDULE 2

SCHOOL ADMINISTRATIVE UNIT #39

Schedule of Funding Progress for Other Post-Employment Benefits

For the Year Ended June 30, 2011

Actuarial Valuation <u>Date</u>	Actuarial Value of <u>Assets</u>	Actuarial Accrued <u>Liability (AAL)</u>	Unfunded AAL <u>(UAAL)</u>	Funded <u>Ratio</u>	Covered <u>Payroll</u>	UAAL as a Percentage of Covered <u>Payroll</u>
7/1/2008	\$ -	\$ 60,225	\$ 60,225	0.0%	\$ 1,198,251	5.0%

*See accompanying notes to the required supplementary information*

SCHOOL ADMINISTRATIVE UNIT #39  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2011

**NOTE 1—BUDGET TO ACTUAL RECONCILIATION**

Amounts recorded as budgetary amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis) – General Fund (Schedule 1) are reported on the basis budgeted by the SAU. Those amounts differ from those reported in conformity with accounting principles generally accepted in the United States of America in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Exhibit D). General Fund budgetary expenditures were adjusted for encumbrances.

	<u>Expenditures</u>
Per Exhibit D	\$ 1,891,694
Encumbrances - June 30, 2010	(5,511)
Encumbrances - June 30, 2011	<u>2,647</u>
Per Schedule 1	<u>\$ 1,888,830</u>

***Major Special Revenue Fund***

Budgetary information in these financial statements has been presented only for the General Fund. The budgetary information is neither practical nor meaningful for the E-Rate Fund.

**NOTE 2—SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS**

In accordance with GASB Statement #45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, the SAU is required to disclose the schedule of funding progress for each of the three most recent actuarial valuations. The SAU implemented the provisions of GASB Statement #45 during the year ended June 30, 2009. Accordingly, the funding progress has only been presented for the most recent actuarial valuation report. Additional disclosures will be made as the information becomes available.