

SCHOOL ADMINISTRATIVE UNIT #39

Financial Statements

June 30, 2014

and

Independent Auditor's Report

SCHOOL ADMINISTRATIVE UNIT #39
FINANCIAL STATEMENTS
June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the School Board
School Administrative Unit #39

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of School Administrative Unit #39 (SAU), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the SAU's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of School Administrative Unit #39, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedule of funding progress for other post-employment benefits on pages i-v and 16-18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Yachon Clutkey & Company PC

Manchester, New Hampshire
December 10, 2014

**SCHOOL ADMINISTRATIVE UNIT #39
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2014**

Presented herewith please find the Management Discussion & Analysis Report for School Administrative Unit #39 (the SAU) for the fiscal year ending June 30, 2014. 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 Position presents information on all of the SAU's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the remaining difference reported as net position. Over time, increases and decreases in net position 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 position 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.

**SCHOOL ADMINISTRATIVE UNIT #39
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2014**

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 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 funds 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 Position 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.

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 and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$127,287 (i.e., net position), an increase of \$39,030 from the previous fiscal year.

Governmental funds reported combined ending fund balances of \$170,371, an increase of \$46,440 from the previous year.

The General Fund shows an ending fund balance of \$121,591, an increase of \$52,000 from the previous year.

The E-Rate Fund shows an ending fund balance of \$48,780, a decrease of (\$5,560) from the previous year.

**SCHOOL ADMINISTRATIVE UNIT #39
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2014**

Government-Wide Financial Analysis

Statement of Net Position for the fiscal years ending June 30, 2014 and 2013:

	<u>FY 2014</u>	<u>FY 2013</u>
Capital and other assets:		
Capital assets, net	\$ 52,860	\$ 66,594
Other assets	222,739	163,200
Total Assets	<u>275,599</u>	<u>229,794</u>
Deferred Outflows of Resources		
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>
Long-term and other liabilities:		
Compensated absences	77,381	90,038
Other post-employment benefits	18,563	12,230
Other liabilities	51,869	38,591
Total Liabilities	<u>147,813</u>	<u>140,859</u>
Deferred Inflows of Resources		
Unearned revenue	499	678
Total Deferred Inflows of Resources	<u>499</u>	<u>678</u>
Net Position:		
Net investment in capital assets	52,860	66,594
Unrestricted	74,427	21,663
Total Net Position	<u>\$ 127,287</u>	<u>\$ 88,257</u>

Statement of Activities for the fiscal years ending June 30, 2014 and 2013:

	<u>FY 2014</u>	<u>FY 2013</u>
Program revenues:		
Charges for services	\$ 34,850	\$ 16,148
Total Program revenues	<u>34,850</u>	<u>16,148</u>
General revenues:		
Member assessments	2,091,505	2,009,558
Interest income	254	164
Miscellaneous	18,167	6,656
Total General revenues	<u>2,109,926</u>	<u>2,016,378</u>
Total Revenues	<u>2,144,776</u>	<u>2,032,526</u>

**SCHOOL ADMINISTRATIVE UNIT #39
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2014**

Expenses:		
Instruction	312,539	307,074
General administration	1,568,850	1,527,172
Operation and maintenance of plant	141,565	140,172
Food service	82,792	87,721
Total Expenses	<u>2,105,746</u>	<u>2,062,139</u>
Change in net position	39,030	(29,613)
Net position, beginning of year	<u>88,257</u>	<u>117,870</u>
Net position, end of year	<u>\$ 127,287</u>	<u>\$ 88,257</u>

Financial Analysis

Government-Wide

As noted in the above, net position 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 position was \$127,287, a change of \$39,030 from the previous year. See page 4 of the Basic Financial Statements for a detailed reconciliation between the government-wide and fund financial statements change in net position.

A significant portion of net position, \$52,860, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay any outstanding debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. It should be noted that the SAU does not have any outstanding debt as of the current fiscal year end.

The unrestricted net position balance of \$74,427 represents what is available to meet the government's ongoing obligations to its citizens and creditors.

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, 2014, Total Governmental Funds reported combined ending fund balances of \$170,371, a net change of \$46,440 in comparison with the previous year.

Fund Balances for the SAU may fall into one of the five following classifications – Nonspendable, Restricted, Committed, Assigned and Unassigned.

Assigned Fund Balance accounts for the largest percentage of fund balance for the General Fund and includes \$70,453 designated to offset the subsequent fiscal year member assessments, and \$50,435 for Brick School Improvements. The fund balance of the General Fund also includes a Nonspendable component of \$703 which represents prepaid expenses.

**SCHOOL ADMINISTRATIVE UNIT #39
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2014**

The E-Rate Fund includes a Committed Fund Balance of \$48,780 for information technology services and equipment. Please see Note 10 of the Notes to Basic Financial Statements for additional information on components of fund balance.

General Fund Budgetary Highlights

Budgetary information for the major governmental funds (General Fund only, see below) is included in the Required Supplementary Information section following the notes to the financial statements. Budgetary information is not presented for the E-Rate Fund, as it is neither practical nor meaningful.

Actual revenues on the budgetary basis exceeded the budgeted amounts by \$17,042. A significant portion of this difference is due to a refund of prior year's health and dental insurance from LGC. Actual expenditures on the budgetary basis were \$35,228 lower than expected. Savings were realized in all areas of operation except instruction. See Schedule on page 16 for additional budgetary comparison 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. There were no capital asset additions or disposals during the current year. See Note 4 in the notes to the basic financial statements for additional information on the capital assets activity.

Long-Term Obligations

During fiscal year 2014, compensated absences payable had a net decrease in potential future payments of (\$12,657). Other post-employment benefits payable had an increase in potential future payments of \$6,333. See Notes 7 and 8 in the Notes to the Basic Financial Statements for additional information on the SAU's 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 Position
June 30, 2014

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 220,849
Due from other governments	1,187
Prepaid expenses	<u>703</u>
Total Current Assets	<u>222,739</u>
Noncurrent assets:	
Capital assets:	
Depreciable capital assets, net	<u>52,860</u>
Total Noncurrent Assets	<u>52,860</u>
Total Assets	<u>275,599</u>
DEFERRED OUTFLOWS OF RESOURCES	
Total Deferred Outflows of Resources	<u>-</u>
LIABILITIES	
Current liabilities:	
Accounts payable	29,103
Accrued expenses	5,867
Due to other governments	<u>16,899</u>
Total Current Liabilities	<u>51,869</u>
Noncurrent liabilities:	
Compensated absences payable	77,381
Other post-employment benefits payable	<u>18,563</u>
Total Noncurrent Liabilities	<u>95,944</u>
Total Liabilities	<u>147,813</u>
DEFERRED INFLOWS OF RESOURCES	
Unearned revenue	<u>499</u>
Total Deferred Inflows of Resources	<u>499</u>
NET POSITION	
Net investment in capital assets	52,860
Unrestricted	<u>74,427</u>
Total Net Position	<u>\$ 127,287</u>

See accompanying notes to the basic financial statements

EXHIBIT B
SCHOOL ADMINISTRATIVE UNIT #39
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Position Governmental Activities</u>
Governmental Activities:			
Instruction	\$ 312,539		\$ (312,539)
General administration	1,568,850	\$ 34,850	(1,534,000)
Operation and maintenance of plant	141,565		(141,565)
Food service	82,792		(82,792)
Total governmental activities	<u>\$ 2,105,746</u>	<u>\$ 34,850</u>	<u>(2,070,896)</u>
General revenues:			
Member assessments			2,091,505
Interest income			254
Miscellaneous			18,167
Total general revenues			<u>2,109,926</u>
Change in net position			39,030
Net position - beginning			<u>88,257</u>
Net position - ending			<u>\$ 127,287</u>

See accompanying notes to the basic financial statements

EXHIBIT C
SCHOOL ADMINISTRATIVE UNIT #39
Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	E-Rate Fund	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 220,849		\$ 220,849
Due from other governments	1,187		1,187
Due from other funds		\$ 48,780	48,780
Prepaid expenses	703		703
Total assets	<u>222,739</u>	<u>48,780</u>	<u>271,519</u>
Deferred outflows of resources:			
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 222,739</u>	<u>\$ 48,780</u>	<u>\$ 271,519</u>
Liabilities:			
Accounts payable	\$ 29,103		\$ 29,103
Accrued expenses	5,867		5,867
Due to other governments	16,899		16,899
Due to other funds	48,780		48,780
Total liabilities	<u>100,649</u>	<u>\$ -</u>	<u>100,649</u>
Deferred inflows of resources:			
Unearned revenue	499		499
Total deferred inflows of resources	<u>499</u>	<u>-</u>	<u>499</u>
Fund balances:			
Nonspendable	703		703
Committed		48,780	48,780
Assigned	120,888		120,888
Total fund balances	<u>121,591</u>	<u>48,780</u>	<u>170,371</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 222,739</u>	<u>\$ 48,780</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 52,860

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:

Compensated absences payable (77,381)
Other post-employment benefits payable (18,563)

Net position of governmental activities \$ 127,287

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, 2014

	General Fund	E-Rate Fund	Total Governmental Funds
Revenues:			
Member assessments	\$ 2,091,505		\$ 2,091,505
Charges for services		\$ 34,850	34,850
Interest income	254		254
Miscellaneous	18,167		18,167
Total Revenues	<u>2,109,926</u>	<u>34,850</u>	<u>2,144,776</u>
Expenditures:			
Current operations:			
Instruction	322,065		322,065
General administration	1,511,833	40,410	1,552,243
Operation and maintenance of plant	141,538		141,538
Food service	82,490		82,490
Total Expenditures	<u>2,057,926</u>	<u>40,410</u>	<u>2,098,336</u>
Net change in fund balances	52,000	(5,560)	46,440
Fund balances at beginning of year	<u>69,591</u>	<u>54,340</u>	<u>123,931</u>
Fund balances at end of year	<u>\$ 121,591</u>	<u>\$ 48,780</u>	<u>\$ 170,371</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, 2014

Change in Fund Balances - Total Governmental Funds	\$ 46,440
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 depreciation expense exceeded capital outlays in the current period.	(13,734)
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.	<u>6,324</u>
Change in Net Position of Governmental Activities	<u>\$ 39,030</u>

See accompanying notes to the basic financial statements

SCHOOL ADMINISTRATIVE UNIT #39
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

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 school 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 position 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 position 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 position 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, 2014

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 deferred outflows of resources less liabilities and deferred inflows of resources 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* is used to account 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, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the SAU are included on the Statement of Net Position.

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, deferred outflows of resources, current liabilities, and deferred inflows of resources 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. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

SCHOOL ADMINISTRATIVE UNIT #39
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

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 unearned revenue, and in the presentation of expenses versus expenditures.

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. Unearned Revenue:

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

3. 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.

SCHOOL ADMINISTRATIVE UNIT #39
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

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, 2014, the SAU did not apply any of its unappropriated fund balance to reduce member assessments.

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 position, 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 or intangible assets. 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 based on years of employment. 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. Staff members are allowed to carry no more than 10 unused vacation days into the next year. Administrators are allowed to carry 20 unused vacation days into the next year and must be used within three months thereafter or be forfeited.

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

SCHOOL ADMINISTRATIVE UNIT #39
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings used for the acquisition, construction or improvement of those assets. Net position is 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. Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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

Fund Balance Policy

Under GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the SAU has segregated fund balance into five classifications: Nonspendable, Restricted, Committed, Assigned, and Unassigned. These components of fund balance are defined as follows:

- *Nonspendable Fund Balance*: Amounts that are not in a spendable form or are required to be maintained intact.
- *Restricted Fund Balance*: Amounts that can only be spent for specific purposes stipulated by external resource providers or by enabling legislation. Restrictions may be changed or lifted only with the consent of the resource providers or the enabling legislation.
- *Committed Fund Balance*: Amounts that can be used only for specific purposes determined by a formal action of the SAU's highest level of decision making authority (the Annual Meeting). Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally. The action must be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.
- *Assigned Fund Balance*: Amounts the SAU intends to use for a specific purpose; intent can be expressed by the School Board or by an official or body to which the School Board delegates the authority.
- *Unassigned Fund Balance*: Amounts that are available for any purpose; these amounts are reported only in the General Fund, with the exception of any deficit fund balance of another governmental fund.

Spending Prioritizations

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered to have been spent first. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, committed amounts should be reduced first, followed by assigned amounts and then unassigned amounts.

SCHOOL ADMINISTRATIVE UNIT #39
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

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 and the liability for other post-employment benefits.

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, 2014, the SAU was a member of and participated in a public entity risk pool (Trust) for property and liability insurance and worker's compensation coverage. Coverage has not been significantly reduced from the prior year and settled claims have not exceeded coverage in any of the past three years.

The Trust agreements permit 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, 2014.

Property and Liability Insurance

The Trust provides certain property and liability insurance coverage to member school districts, school administrative units, and other qualified political subdivisions of New Hampshire. As a member of the Trust, the District shares in contributing to the cost of and receiving benefit from a self-insured pooled risk management program. The program includes a Self-Insured Retention Fund from which is paid up to \$500,000 for each and every covered property, crime and/or liability loss that exceeds \$1,000, up to an aggregate of \$5,000,000. Each property loss is subject to a \$1,000 deductible. All losses over the aggregate are covered by insurance policies.

Worker's Compensation

The Trust provides statutory worker's compensation coverage to member school districts, school administrative units, 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'

SCHOOL ADMINISTRATIVE UNIT #39
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

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.

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, 2014 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	<u>\$ 220,849</u>

Deposits at June 30, 2014 consist of the following:

Deposits with financial institutions	<u>\$ 220,849</u>
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The School Administrative Unit's investment policy for its 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—CAPITAL ASSETS

The following is a summary of changes in capital assets:

	Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2014</u>
Capital assets:				
Building and improvements	\$ 53,139			\$ 53,139
Software and office equipment	210,441			210,441
Total capital assets at historical cost	<u>263,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>263,580</u>
Less accumulated depreciation for:				
Building and improvements	(4,338)	(2,126)		(6,464)
Software and office equipment	(192,648)	(11,608)		(204,256)
Total accumulated depreciation	<u>(196,986)</u>	<u>(13,734)</u>	<u>-</u>	<u>(210,720)</u>
Total capital assets, net	<u>\$ 66,594</u>	<u>\$ (13,734)</u>	<u>\$ -</u>	<u>\$ 52,860</u>

Depreciation expense was charged to governmental functions as follows:

General administration	\$ 11,608
Operation and maintenance of plant	<u>2,126</u>
	<u>\$ 13,734</u>

SCHOOL ADMINISTRATIVE UNIT #39
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 5—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 7.0% of their covered salary and the SAU is required to contribute at an actuarially determined rate. The SAU's contribution rate for the covered payroll of general employees for the year ended June 30, 2014 was 10.77%. The SAU contributes 100% of the employer cost for general employees of the SAU.

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, 2014, 2013, and 2012 were \$138,086, \$112,255, and \$113,313, respectively, equal to the required contributions for each year.

NOTE 6—DEFINED CONTRIBUTION PLAN

The SAU contributes to the School Administrative Unit #39 403(b) Plan and the School Administrative Unit #39 457 Plan. Both plans are considered to be defined contribution plans and were established under Internal Revenue Code (IRC) section 457. The plans allow employees to defer income taxation on retirement savings into future years and are administered by the SAU. All employees of the SAU are eligible to make contributions to the plans. The plans have no required minimum contributions for employees. Under the terms of the plans, the SAU matches contributions up to 6.2% of gross pay for all full-time employees enrolled in the NHRS. The SAU contributes an additional \$1,500 in lieu of additional long-term disability coverage for administrators. Contributions to the 403(b) Plan made by the plan members and the SAU for the fiscal year ended June 30, 2014 were \$31,257 and \$23,551, respectively. Contributions to the 457 Plan made by the plan members and the SAU for the fiscal year ended June 30, 2014 were \$130,408 and \$55,958, respectively.

NOTE 7—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. Retirees under the age of 65 have a choice for a medical insurance plan of Anthem Matthew Thornton Blue HMO and Anthem BCBS Blue Choice POS. Retirees over the age of 65 must enroll in the Medicare Supplemental Plan Medicomp III. To qualify for these benefits employees must meet one of

SCHOOL ADMINISTRATIVE UNIT #39
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

the following eligibility requirements: age 60 or older with no minimum service requirement, age 50 with 10 years of service, or age plus service equals 70 with a minimum of 20 years of service. 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, 2011, the most recent actuarial valuation date, approximately 4 retirees and 21 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

Annual OPEB Costs

The SAU's fiscal 2014 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, 2014 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, 2011 is as follows:

Annual Required Contribution (ARC)	\$ 13,936
Interest on net OPEB obligation	489
Adjustment to ARC	(597)
Annual OPEB cost	13,828
Contributions made	(7,495)
Increase in net OPEB obligation	6,333
Net OPEB obligation - beginning of year	12,230
Net OPEB obligation - end of year	<u>\$ 18,563</u>

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, 2014, 2013 and 2012 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	Covered Payroll	OPEB Cost % of Pay
6/30/2014	\$ 13,828	54.2%	\$ 18,563	\$ 1,320,305	1.0%
6/30/2013	\$ 13,262	35.0%	\$ 12,230	\$ 1,288,102	1.0%
6/30/2012	\$ 12,726	71.6%	\$ 3,614	\$ 1,256,685	1.0%

The SAU's net OPEB obligation as of June 30, 2014 is recognized as a liability in these financial statements.

Funded Status and Funding Progress for OPEB

The funded status of the plan as of July 1, 2011, the date of the most recent actuarial valuation is as follows:

SCHOOL ADMINISTRATIVE UNIT #39
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

Actuarial Accrued Liability (AAL)	\$ 46,126
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 46,126</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 1,256,685
UAAL as a percentage of covered payroll	3.7%

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 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 provides 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.

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.

For the July 1, 2011 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 SAU employs the Pay-as-you-go Cash Basis to fund the plan. The actuarial assumptions included a 4.0% investment rate of return and an initial annual medical cost trend of 8.5% which decreases to a 5.0% long-term rate for all medical 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 8—LONG-TERM OBLIGATIONS

Changes in Long-Term Obligations

The changes in the SAU's long-term obligations for the year ended June 30, 2014 are as follows:

Type	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
Compensated absences payable	<u>\$ 90,038</u>	<u>\$ 13,318</u>	<u>\$ (25,975)</u>	<u>\$ 77,381</u>	<u>\$ -</u>

Payments on compensated absences will be paid from the General Fund.

SCHOOL ADMINISTRATIVE UNIT #39
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 9—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, 2014, the General Fund has an interfund balance payable to the E-Rate Fund in the amount of \$48,780.

NOTE 10—FUND BALANCE COMPONENTS

The components of the SAU's fund balance for its governmental funds at June 30, 2014 are as follows:

	General Fund	E-Rate Fund	Total Governmental Funds
Nonspendable:			
Prepaid expenses	\$ 703		\$ 703
Committed for:			
Information technology services and equipment		\$ 48,780	48,780
Assigned for:			
Brick school improvements	50,435		50,435
Designated to offset subsequent fiscal year member assessments	70,453		70,453
	<u>\$ 121,591</u>	<u>\$ 48,780</u>	<u>\$ 170,371</u>

NOTE 11—CONTINGENT LIABILITIES

Litigation

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

NOTE 12—IMPLEMENTATION OF FUTURE ACCOUNTING STANDARDS

The Government Accounting Standards Board (GASB) has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which the SAU is required to implement in the fiscal year ending June 30, 2015. Management believes that this pronouncement will have a potentially significant impact on the SAU's government-wide financial statements. Under GASB Statement 68, the SAU will be required to report its estimated proportional share of the New Hampshire Retirement System's unfunded pension liability in the financial statements for fiscal years beginning after June 15, 2014.

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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Revenues:				
Member assessments	\$ 2,091,505	\$ 2,091,505	\$ 2,091,505	\$ -
Interest income	-	-	254	254
Miscellaneous	-	1,379	18,167	16,788
Total Revenues	<u>2,091,505</u>	<u>2,092,884</u>	<u>2,109,926</u>	<u>17,042</u>
Expenditures:				
Current operations:				
Instruction	309,473	316,277	322,065	(5,788)
General administration	1,527,591	1,522,343	1,511,563	10,780
Operation and maintenance of plant	163,318	171,772	141,538	30,234
Food service	91,123	82,492	82,490	2
Total Expenditures	<u>2,091,505</u>	<u>2,092,884</u>	<u>2,057,656</u>	<u>35,228</u>
Net change in fund balance	-	-	52,270	52,270
Fund balance at beginning of year				
- Budgetary Basis	<u>69,321</u>	<u>69,321</u>	<u>69,321</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 69,321</u>	<u>\$ 69,321</u>	<u>\$ 121,591</u>	<u>\$ 52,270</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, 2014

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2008	\$ -	\$ 60,225	\$ 60,225	0.0%	\$ 1,198,251	5.0%
7/1/2011	\$ -	\$ 46,126	\$ 46,126	0.0%	\$ 1,256,685	3.7%

See accompanying notes to the required supplementary information

SCHOOL ADMINISTRATIVE UNIT #39
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2014

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 as follows:

	<u>Expenditures</u>
Per Exhibit D	\$ 2,057,926
Encumbrances - June 30, 2013	(270)
Per Schedule 1	<u>\$ 2,057,656</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 two most recent actuarial valuation reports. Additional disclosures will be made as the information becomes available.