

**SCHOOL ADMINISTRATIVE UNIT #39**

**Financial Statements**

**June 30, 2015**

**and**

**Independent Auditor's Report**

**SCHOOL ADMINISTRATIVE UNIT #39**  
**FINANCIAL STATEMENTS**  
**June 30, 2015**

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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, 2015, 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, 2015, 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, the budgetary comparison information, the schedule of funding progress for other post-employment benefits, the schedule of changes in the SAU's proportionate share of the net pension liability, and the schedule of SAU contributions on pages i-v and 20-24 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.

*Vachon Cloutay & Company PC*

Manchester, New Hampshire  
December 18, 2015

**SCHOOL ADMINISTRATIVE UNIT #39  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2015**

Presented herewith please find the Management Discussion & Analysis Report for School Administrative Unit #39 (the SAU) for the fiscal year ending June 30, 2015. 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, 2015**

**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 were exceeded by total liabilities and deferred inflows of resources by (\$1,536,548) (i.e., net position), an increase of \$63,825 from the previous fiscal year.

Governmental funds reported combined ending fund balances of \$217,726, an increase of \$47,355 from the previous year.

The General Fund shows an ending fund balance of \$167,748, an increase of \$46,157 from the previous year.

The E-Rate Fund shows an ending fund balance of \$49,978, an increase of \$1,198 from the previous year.

**SCHOOL ADMINISTRATIVE UNIT #39  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2015**

**Government-Wide Financial Analysis**

During the year ended June 30, 2015, the SAU adopted Governmental Accounting Standards Board (GASB) Statement No. 68 - *Accounting and Financial Reporting for Pensions*. Under GASB Statement 68, the SAU is required to report its proportional share of the New Hampshire Retirement Systems unfunded pension liability as 'Net Pension Liability' on the government-wide financial statements. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2013. See the notes to the basic financial statements for further information.

**Statement of Net Position for the fiscal years ending June 30, 2015 and 2014:**

	<u>FY 2015</u>	<u>FY 2014</u>
Capital and other assets:		
Capital assets, net	\$ 53,481	\$ 52,860
Other assets	257,411	222,739
Total Assets	<u>310,892</u>	<u>275,599</u>
Deferred Outflows of Resources:		
Deferred outflows related to pension	130,504	133,790
Total Deferred Outflows of Resources	<u>130,504</u>	<u>133,790</u>
Long-term and other liabilities:		
Compensated absences	94,774	77,381
Other post-employment benefits	26,315	18,563
Net pension liability	1,547,951	1,861,450
Other liabilities	38,983	51,869
Total Liabilities	<u>1,708,023</u>	<u>2,009,263</u>
Deferred Inflows of Resources:		
Unearned revenue	702	499
Deferred inflows related to pension	269,219	-
Total Deferred Inflows of Resources	<u>269,921</u>	<u>499</u>
Net Position:		
Net investment in capital assets	53,481	52,860
Unrestricted (deficit)	<u>(1,590,029)</u>	<u>(1,653,233)</u>
Total Net Position	<u>\$ (1,536,548)</u>	<u>\$ (1,600,373)</u>

**Statement of Activities for the fiscal years ending June 30, 2015 and 2014:**

	<u>FY 2015</u>	<u>FY 2014</u>
Program revenues:		
Charges for services	\$ 34,965	\$ 34,850
Total Program revenues	<u>34,965</u>	<u>34,850</u>

**SCHOOL ADMINISTRATIVE UNIT #39  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2015**

General revenues:		
Member Assessments	2,094,546	2,091,505
Interest income	200	254
Miscellaneous	9,264	18,167
Total General revenues	<u>2,104,010</u>	<u>2,109,926</u>
Total Revenues	<u>2,138,975</u>	<u>2,144,776</u>
Expenses:		
Instruction	254,059	310,702
General administration	1,569,501	1,547,330
Operation and maintenance of plant	169,956	139,991
Food service	81,634	81,479
Total Expenses	<u>2,075,150</u>	<u>2,079,502</u>
Change in net position	63,825	65,274
Net position, beginning of year, as restated	<u>(1,600,373)</u>	<u>(1,665,647)</u>
Net position, end of year	<u>\$ (1,536,548)</u>	<u>\$ (1,600,373)</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 a deficit of (\$1,536,548), a change of \$63,825 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, \$53,481, reflects our investment in capital assets (e.g., buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding (none at fiscal year end). 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 significant deficit unrestricted net position balance at year end (\$1,590,029) is due to the implementation of GASB Statement 68 during the current year. A deficit unrestricted net position balance is expected to continue into subsequent years.

**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, 2015, Total Governmental Funds reported combined ending fund balances of \$217,726, a net change of \$47,355 in comparison with the previous year.



**SCHOOL ADMINISTRATIVE UNIT #39  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2015**

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 \$71,772 designated to offset the subsequent fiscal year member assessments, and \$95,435 for Brick School Improvements. The fund balance of the General Fund also includes a Nonspendable component of \$541 which represents prepaid expenses.

The E-Rate Fund includes a Committed Fund Balance of \$49,978 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 \$8,667. A significant portion of this difference is due to a refund of prior expenditures. Actual expenditures on the budgetary basis were \$82,538 lower than expected. Savings were realized in all areas of operation except food service. See Schedule on page 20 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. During the current year, capital asset additions of \$7,644 exceeded depreciation expense of (\$7,023), resulting in a net capital assets increase of \$621. See Note 4 in the notes to the basic financial statements for additional information on the capital assets activity.

**Long-Term Obligations**

During the current year, compensated absences payable had a net increase in potential future payments of \$17,393. The liabilities for other post-employment benefits and net pension had a net increase and decrease in potential future payments of \$7,752 and (\$313,499), respectively. See Notes 5, 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, 2015

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 256,013
Due from other governments	857
Prepaid expenses	541
Total Current Assets	<u>257,411</u>
Noncurrent assets:	
Capital assets:	
Depreciable capital assets, net	<u>53,481</u>
Total Noncurrent Assets	<u>53,481</u>
Total Assets	<u>310,892</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pension	<u>130,504</u>
Total Deferred Outflows of Resources	<u>130,504</u>
LIABILITIES	
Current liabilities:	
Accounts payable	26,953
Accrued expenses	882
Due to other governments	11,148
Current portion of compensated absences payable	<u>11,513</u>
Total Current Liabilities	<u>50,496</u>
Noncurrent liabilities:	
Compensated absences payable	83,261
Other post-employment benefits payable	26,315
Net pension liability	<u>1,547,951</u>
Total Noncurrent Liabilities	<u>1,657,527</u>
Total Liabilities	<u>1,708,023</u>
DEFERRED INFLOWS OF RESOURCES	
Unearned revenue	702
Deferred inflows related to pension	<u>269,219</u>
Total Deferred Inflows of Resources	<u>269,921</u>
NET POSITION	
Net investment in capital assets	53,481
Unrestricted (Deficit)	<u>(1,590,029)</u>
Total Net Position	<u><u>\$(1,536,548)</u></u>

*See accompanying notes to the basic financial statements*

EXHIBIT B  
**SCHOOL ADMINISTRATIVE UNIT #39**  
**Statement of Activities**  
For the Year Ended June 30, 2015

Functions/Programs	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	Net (Expense) Revenue and Changes in Net Position <u>Governmental Activities</u>
Governmental Activities:			
Instruction	\$ 254,059		\$ (254,059)
General administration	1,569,501	\$ 34,965	(1,534,536)
Operation and maintenance of plant	169,956		(169,956)
Food service	81,634		(81,634)
Total governmental activities	<u>\$ 2,075,150</u>	<u>\$ 34,965</u>	<u>(2,040,185)</u>
General revenues:			
Member assessments			2,094,546
Interest income			200
Miscellaneous			9,264
Total general revenues			<u>2,104,010</u>
Change in net position			63,825
Net Position - beginning, as restated			<u>(1,600,373)</u>
Net Position - ending			<u>\$ (1,536,548)</u>

*See accompanying notes to the basic financial statements*

EXHIBIT C  
**SCHOOL ADMINISTRATIVE UNIT #39**  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2015

	General Fund	E-Rate Fund	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 256,013		\$ 256,013
Due from other governments	857		857
Due from other funds		\$ 60,353	60,353
Prepaid expenses	541		541
Total assets	<u>257,411</u>	<u>60,353</u>	<u>317,764</u>
Deferred outflows of resources:			
Total deferred outflows of resources	-	-	-
Total assets and deferred outflows of resources	<u>\$ 257,411</u>	<u>\$ 60,353</u>	<u>\$ 317,764</u>
Liabilities:			
Accounts payable	\$ 16,578	\$ 10,375	\$ 26,953
Accrued expenses	882		882
Due to other governments	11,148		11,148
Due to other funds	60,353		60,353
Total liabilities	<u>88,961</u>	<u>10,375</u>	<u>99,336</u>
Deferred inflows of resources:			
Unearned revenue	702		702
Total deferred inflows of resources	<u>702</u>	<u>-</u>	<u>702</u>
Fund balances:			
Nonspendable	541		541
Committed		49,978	49,978
Assigned	167,207		167,207
Total fund balances	<u>167,748</u>	<u>49,978</u>	<u>217,726</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 257,411</u>	<u>\$ 60,353</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			53,481
Deferred outflows of resources and deferred inflows of resources that do not require or provide the use of current financial resources are not reported within the funds.			
Deferred outflows of resources attributable to net pension liability			130,504
Deferred inflows of resources attributable to net pension liability			(269,219)
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			(94,774)
Other post-employment benefits payable			(26,315)
Net pension liability			<u>(1,547,951)</u>
Net Position of Governmental Activities			<u><u>\$(1,536,548)</u></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, 2015

	General Fund	E-Rate Fund	Total Governmental Funds
Revenues:			
Member assessments	\$ 2,094,546		\$ 2,094,546
Charges for services		\$ 34,965	34,965
Interest income	200		200
Miscellaneous	9,264		9,264
Total Revenues	<u>2,104,010</u>	<u>34,965</u>	<u>2,138,975</u>
Expenditures:			
Current operations:			
Instruction	253,745		253,745
General administration	1,543,861	33,767	1,577,628
Operation and maintenance of plant	177,011		177,011
Food service	83,236		83,236
Total Expenditures	<u>2,057,853</u>	<u>33,767</u>	<u>2,091,620</u>
Net change in fund balances	46,157	1,198	47,355
Fund balances at beginning of year	<u>121,591</u>	<u>48,780</u>	<u>170,371</u>
Fund balances at end of year	<u>\$ 167,748</u>	<u>\$ 49,978</u>	<u>\$ 217,726</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, 2015

Change in Fund Balances - Total Governmental Funds	\$ 47,355
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 outlays exceeded depreciation expense in the current period.	621
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.	(25,145)
Governmental funds report pension contributions as expenditures. However, in the statement of activities, pension expense reflects the change in the net pension liability and related deferred outflows and inflows of resources, and does not require the use of current financial resources. This is the amount by which pension contributions exceeded pension expense in the current period.	40,994
Change in Net Position of Governmental Activities	<u>\$ 63,825</u>

See accompanying notes to the basic financial statements

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2015

**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)**  
For the Year Ended June 30, 2015

***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, and 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 accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended June 30, 2015

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)**  
For the Year Ended June 30, 2015

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, 2015, the SAU applied \$45,048 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. Other 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)**  
For the Year Ended June 30, 2015

***Pensions***

During the year ended June 30, 2015, the SAU adopted Governmental Accounting Standards Board (GASB) Statement No. 68 - *Accounting and Financial Reporting for Pensions*. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Hampshire Retirement System (NHRS) and additions to/deductions from NHRS's fiduciary net position have been determined on the same basis as they are reported by NHRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

***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.

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended June 30, 2015

- *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.

*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, 2015, 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, 2015.

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended June 30, 2015

***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 SAU 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' 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**

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

Statement of Net Position:	
Cash and cash equivalents	<u>\$ 256,013</u>

Deposits at June 30, 2015 consist of the following:

Deposits with financial institutions	<u>\$ 256,013</u>
--------------------------------------	-------------------

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.

***Custodial Credit Risk***

Custodial credit risk for deposits is the risk that in the event of a bank failure, the SAU's deposits may not be returned. The SAU's investment policy stipulates that all deposits and investments be covered by federal depository insurance, with all balances in excess of FDIC insurance limits collateralized.

Of the SAU's deposits with financial institutions at year end, \$14,086 was collateralized by securities held by the bank in the bank's name.

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended June 30, 2015

**NOTE 4—CAPITAL ASSETS**

The following is a summary of changes in capital assets of the governmental activities:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
Capital assets:				
Building and improvements	\$ 53,139			\$ 53,139
Software and office equipment	210,441	\$ 7,644		218,085
Total capital assets at historical cost	263,580	7,644	\$ -	271,224
Less accumulated depreciation for:				
Building and improvements	(6,464)	(2,125)		(8,589)
Software and office equipment	(204,256)	(4,898)		(209,154)
Total accumulated depreciation	(196,986)	(7,023)	-	(217,743)
Total capital assets, net	\$ 66,594	\$ 621	\$ -	\$ 53,481

Depreciation expense was charged to governmental functions as follows:

General administration	\$ 4,898
Operation and maintenance of plant	2,125
	<u>\$ 7,023</u>

**NOTE 5—DEFINED BENEFIT PENSION PLAN**

***Plan Description***

The SAU contributes to the New Hampshire Retirement System (NHRS), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25. The New Hampshire Retirement System is a public employee retirement system that administers a single cost-sharing multiple-employer defined benefit pension plan. 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 NHRS. That report may be obtained by writing to New Hampshire Retirement System, 54 Regional Drive, Concord, New Hampshire 03301.

Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers with in the State are eligible and required to participate in the Pension Plan.

The Pension Plan is divided into two membership groups. State and local employees and teachers belong to Group I. Police and firefighters belong to Group II. All assets are held in a single trust and are available to pay retirement benefits to all members. Substantially all of the SAU's eligible employees are classified as Group I.

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended June 30, 2015

***Benefits Provided***

Group I members at age 60 or 65 (for members who commence service after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final salary for the highest of either three or five years, depending on when their service commenced. The yearly pension amount is 1/60 or 1.667% of average final compensation (AFC), multiplied by years of creditable service. At age 65, the yearly pension amount is recalculated at 1/66 or 1.515% of AFC multiplied by years of creditable service.

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

***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. For the year ended June 30, 2015, the SAU's contribution rate for the covered payroll of general employees was 10.77%. The SAU contributes 100% of the employer cost for general employees of the SAU.

Per RSA-100:16, 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 year ending June 30, 2015 was \$130,504.

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

At June 30, 2015, the SAU reported a liability of \$1,547,951 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2013. The SAU's proportion of the net pension liability was based on actual contributions by the SAU during the relevant fiscal year relative to the actual contributions of all participating plan members, excluding contributions to separately finance specific liabilities of individual employers or NHRS. At June 30, 2014, the SAU's proportion was approximately 0.0412 percent, which was a decrease of 0.002 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the SAU recognized pension expense of \$89,510. At June 30, 2015, the SAU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended June 30, 2015

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Net difference between projected and actual earnings on pension plan investments		\$ 198,062
Changes in proportion and differences between SAU contributions and proportionate share of contributions		71,157
SAU contributions subsequent to the measurement date	\$ 130,504	
Totals	\$ 130,504	\$ 269,219

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions is reflected as a decrease to unrestricted net position in the amount of \$138,715. The SAU reported \$130,504 as deferred outflows of resources related to pensions resulting from SAU contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended <u>June 30,</u>	
2015	\$ (64,959)
2016	(64,959)
2017	(64,959)
2018	(64,959)
2019	(9,383)
	<u>\$ (269,219)</u>

***Actuarial Assumptions***

The total pension liability in the July 1, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Wage inflation	3.75 percent
Salary increases	5.8 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

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

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended June 30, 2015

Retirement rates were based on a table of rates that are specific to the type of eligibility condition, last updated in 2011 pursuant to an experience study of the period 2005-2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of weighted average long-term expected real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Net of inflation assumption of 3.0%)</u>
Fixed income	25%	(1.75)-2.0%
Domestic equity	30%	3.3%
International equity	20%	4.25-6.5%
Real estate	10%	3.3%
Private equity	5%	5.8%
Private debt	5%	5.0%
Opportunistic	5%	2.5%
Total	<u>100%</u>	

***Discount Rate***

The discount rate used to measure the collective pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the collective pension liability.

***Sensitivity of the SAU's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following presents the SAU's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what SAU's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the single discount rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
SAU's proportionate share of the net pension liability	\$ 2,038,903	\$ 1,547,951	\$ 1,133,759



**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended June 30, 2015

**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, 2015 were \$28,914 and \$28,603, respectively. Contributions to the 457 Plan made by the plan members and the SAU for the fiscal year ended June 30, 2015 were \$114,523 and \$65,276, 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, Anthem BCBS Blue Choice POS, and Anthem BCBS Blue Shield JY Plan. Retirees over the age of 65 must enroll in the Medicare Supplement Plan Medicomp III or Medicomp III without prescription drug. To qualify for these benefits employees hired before July 1, 2011 must meet one of 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. Employees hired after July 1, 2011 must be either age 65 or older with no minimum service requirement, or age 60 with a minimum of 30 years of service, to qualify for these benefits. Retirees and their covered spouses 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, 2014, the most recent actuarial valuation date, approximately 1 retiree and 19 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

***Annual OPEB Costs***

For the year ended June 30, 2015 the SAU's 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, 2015, 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, 2014 is as follows:

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended June 30, 2015

Annual Required Contribution (ARC)	\$ 8,244
Interest on net OPEB obligation	742
Adjustment to ARC	<u>(1,053)</u>
Annual OPEB cost	7,933
Contributions made	<u>(181)</u>
Increase in net OPEB obligation	7,752
Net OPEB obligation - beginning of year	<u>18,563</u>
Net OPEB obligation - end of year	<u>\$ 26,315</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, 2015, 2014 and 2013 are as follows:

<u>Fiscal</u> <u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>	<u>Covered</u> <u>Payroll</u>	<u>OPEB Cost</u> <u>% of Pay</u>
6/30/2015	\$ 7,934	2.3%	\$ 26,315	\$ 1,275,719	0.6%
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%

The SAU's net OPEB obligation as of June 30, 2015 is recognized as a liability of the governmental activities in these financial statements.

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

The funded status of the plan as of July 1, 2014, the date of the most recent actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 46,599
Actuarial value of plan assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 46,599</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 1,275,719
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

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended June 30, 2015

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, 2014 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. The initial annual health care cost trend is (1.53%), which increases to 9% for the second year, and then decreases annually in 1% decrements to an ultimate rate of 5.0% after six 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 an open basis.

**NOTE 8—LONG-TERM OBLIGATIONS**

*Changes in Long-Term Obligations of the Governmental Activities*

The changes in the SAU's long-term obligations for the year ended June 30, 2015 are as follows:

<u>Type</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Amounts</u>
	<u>July 1, 2014</u>			<u>June 30, 2015</u>	<u>Due Within</u>
					<u>One Year</u>
Compensated absences payable	\$ 77,381	\$ 22,568	\$ (5,175)	\$ 94,774	\$ 11,513

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

**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, 2015, the General Fund has an interfund balance payable to the E-Rate Fund in the amount of \$60,353, for its portion of the pooled cash balance.

**NOTE 10—FUND BALANCE COMPONENTS**

The components of the SAU's fund balance for its governmental funds at June 30, 2015 are as follows:

	<u>General</u>	<u>E-Rate</u>	<u>Total</u>
	<u>Fund</u>	<u>Fund</u>	<u>Governmental</u>
			<u>Funds</u>
<b>Nonspendable:</b>			
Prepaid expenses	\$ 541		\$ 541
<b>Committed for:</b>			
Information technology services and equipment		\$ 49,978	49,978
<b>Assigned for:</b>			
Brick school improvements	95,435		95,435
Designated to offset subsequent fiscal year			
member assessments	71,772		71,772
	<u>\$ 167,748</u>	<u>\$ 49,978</u>	<u>\$ 217,726</u>

**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
For the Year Ended June 30, 2015

**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—RESTATEMENT OF EQUITY**

During the year ended June 30, 2015, the SAU adopted Governmental Accounting Standards Board (GASB) Statement No. 68 - *Accounting and Financial Reporting for Pensions*, as described in Note 1 of these financial statements. The impact on beginning net position of the Governmental Activities is as follows:

	Governmental Activities
Net Position - July 1, 2014 (as previously reported)	\$ 127,287
Amount of restatement due to:	
Net Pension Liability	(1,861,450)
Contributions subsequent to measurement date	<u>133,790</u>
Net Position - July 1, 2014, as restated	<u><u>\$ (1,600,373)</u></u>

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, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	Final Budget - Favorable (Unfavorable)
Revenues:				
Member assessments	\$ 2,094,546	\$ 2,094,546	\$ 2,094,546	\$ -
Interest income	-	-	200	200
Miscellaneous	-	797	9,264	8,467
Total Revenues	<u>2,094,546</u>	<u>2,095,343</u>	<u>2,104,010</u>	<u>8,667</u>
Expenditures:				
Current operations:				
Instruction	313,063	292,366	253,745	38,621
General administration	1,574,692	1,568,103	1,543,861	24,242
Operation and maintenance of plant	177,525	196,685	177,011	19,674
Food service	74,314	83,237	83,236	1
Total Expenditures	<u>2,139,594</u>	<u>2,140,391</u>	<u>2,057,853</u>	<u>82,538</u>
Net change in fund balance	(45,048)	(45,048)	46,157	91,205
Fund balance at beginning of year				
- Budgetary Basis	<u>121,591</u>	<u>121,591</u>	<u>121,591</u>	<u>-</u>
Fund balance at end of year				
- Budgetary Basis	<u>\$ 76,543</u>	<u>\$ 76,543</u>	<u>\$ 167,748</u>	<u>\$ 91,205</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, 2015

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%
7/1/2011	\$ -	\$ 46,126	\$ 46,126	0.0%	\$ 1,256,685	3.7%
7/1/2014	\$ -	\$ 46,599	\$ 46,599	0.0%	\$ 1,275,719	3.7%

*See accompanying notes to the required supplementary information*

SCHEDULE 3

**SCHOOL ADMINISTRATIVE UNIT #39**

**Schedule of Changes in the SAU's Proportionate Share of the Net Pension Liability**

For the Year Ended June 30, 2015

	<u>2014</u>	<u>2013</u>
SAU's proportion of the net pension liability (asset)	0.0412%	0.0433%
SAU's proportionate share of the net pension liability (asset)	\$ 1,547,951	\$ 1,861,450
SAU's covered-employee payroll	\$ 1,281,510	\$ 1,268,235
SAU's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	120.79%	146.77%
Plan fiduciary net position as a percentage of the total pension liability	66.32%	59.81%

*See accompanying notes to the required supplementary information*

SCHEDULE 4  
**SCHOOL ADMINISTRATIVE UNIT #39**  
**Schedule of SAU Contributions**  
For the Year Ended June 30, 2015

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 130,504	\$ 133,790
Contributions in relation to the contractually required contribution	<u>(130,504)</u>	<u>(133,790)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
SAU's covered-employee payroll	\$ 1,250,041	\$ 1,281,510
Contributions as a percentage of covered-employee payroll	10.44%	10.44%

*See accompanying notes to the required supplementary information*



**SCHOOL ADMINISTRATIVE UNIT #39**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
For the Year Ended June 30, 2015

**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 may 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). There were no such differences in reporting for the year ended June 30, 2015.

***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 been presented for the three most recent actuarial valuation reports.

**NOTE 3—SCHEDULE OF CHANGES IN THE SAU'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF SAU CONTRIBUTIONS**

In accordance with GASB Statement #68, *Accounting and Financial Reporting for Pensions*, the SAU is required to disclose historical information for each of the prior ten years within a schedule of changes in the SAU's proportionate share of the net pension liability, and schedule of SAU contributions. The SAU implemented the provisions of GASB Statement #68 during the year ended June 30, 2015. Accordingly, the historic information has only been presented for those years which information was readily available. Additional disclosures will be made in future years as the information becomes available.