

Regional School Unit No. 26

ANNUAL FINANCIAL STATEMENTS
(with required and other supplementary information)

For the Year Ended June 30, 2014

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Independent Auditor's Report

Board of Directors
Regional School Unit No. 26

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Regional School Unit No. 26 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Unit'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, each major fund, and the aggregate remaining fund information of Regional School Unit No. 26 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.

Emphasis of a Matter

Change in Accounting Principles

As described in Note 1 to the financial statements, the Unit adopted the provisions of GASB Statement 65, *Items Previously Reported as Assets and Liabilities* and GASB Statement 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. The opinion is not modified as a result of this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 13 and 34 through 35 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Regional School Unit No. 26's basic financial statements. The other supplementary information on Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the State of Maine and is also not a required part of the basic financial statements. The reconciliation of audit adjustments to annual financial data submitted to MEDMS financial system is presented as required by the laws of the State of Maine and is also not a required part of the basic financial statements.

The other supplementary information on Schedules 1 through 5, the schedule of expenditures of federal awards, and the reconciliation of audit adjustments to annual financial data submitted to MEDMS financial system are the responsibility of management and are derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1 through 5, the schedule of expenditures of federal awards, and the reconciliation of audit adjustments to annual financial data submitted to MEDMS financial system are fairly stated in all material respects in relation to the basic financial statements as a whole.

Branthier Whibodian & Associates

January 30, 2015

Regional School Unit No. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)
June 30, 2014

As management of the Regional School Unit No. 26, we offer readers of the Unit's financial statements this narrative overview and analysis of the financial activities of the Unit for the fiscal year ended June 30, 2014. To the best of our knowledge and belief, the data contained herein is accurate in all material respects. The data is reported in a manner designed to fairly present the Unit's financial position, and the results of operations of the various funds of the Unit. All disclosures necessary to enable the reader to gain an accurate understanding of the Unit's financial activities have been included.

This report covers all funds administered by the Unit in connection with its responsibility in providing educational services. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL INFORMATION

The Regional School Unit No. 26 was formed on July 1, 2009 from the consolidation of three former school departments of the Town of Glenburn, Orono and Veazie under new state of Maine legislation. The Towns of Glenburn and Veazie withdrew from the Unit effective July 1, 2013 resulting in significant changes to the overall financial statements.

The Unit's administration is responsible for establishing and maintaining an accounting and internal control structure designed to ensure that the physical, data, informational, intellectual and human resource assets of the Unit 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). Additionally, management strives to ensure that these assets are put to good and effective use.

FINANCIAL HIGHLIGHTS

- The total balance of the Unit's cash and cash equivalents at June 30, 2014 was \$2,402,603.
- Under the government-wide basis of reporting, the Unit's total net position was \$2,931,838 at June 30, 2014.

OVERVIEW OF FINANCIAL STATEMENTS

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

Regional School Unit No. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)
June 30, 2014

Government-wide financial statements

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

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

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

The government-wide financial statements outline functions of the Unit that are principally supported by assessments and intergovernmental revenues (governmental activities). The governmental activities of the Unit include instruction, support services, operation and maintenance of plant, transportation, administration, and adult education. Fixed assets and related debt are also supported by assessments and intergovernmental revenues. The government-wide financial statements can be found on pages 14 - 15 of this report.

Fund financial statements

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

Governmental Funds

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

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Unit's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. Capital assets and depreciation are not included in the governmental funds financial statements.

The Unit adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. This statement is included in the required supplementary information portion of the financial statements. The basic governmental fund financial statements can be found on pages 16-19 of this report.

Regional School Unit No. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)
June 30, 2014

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statements because the Unit cannot use these funds to finance its operations. The Unit uses agency funds to account for resources held for student groups and private purpose trust funds to account for resources of scholarship accounts. The basic fiduciary fund financial statements can be found on pages 20-21 of this report.

Notes to the basic financial statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 22-33 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning financial performance (budget and actual with budget to GAAP differences and budget and actual with variances). Required supplementary information can be found on pages 34-35 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information. Combining and individual statements and schedules can be found on pages 38-39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Unit, assets exceeded liabilities by \$2,931,838 as of June 30, 2014.

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

The Unit's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Regional School Unit No. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)
June 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Net Position for the Period Ending June 30, 2014 and 2013

The current year's governmental activities financial statements are compared with prior year as follows:

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 3,670,151	\$ 4,669,236
Capital assets (net of accumulated depreciation)	<u>4,635,685</u>	<u>8,533,619</u>
Total Assets	8,305,685	13,202,855
Current liabilities	968,229	1,100,472
Non-current liabilities	<u>4,405,769</u>	<u>4,949,928</u>
Total Liabilities	5,373,998	6,050,400
Net Position		
Investment in capital assets (net of debt)	1,194,241	4,036,355
Restricted	120,909	2,094,833
Unrestricted	<u>1,616,688</u>	<u>1,021,267</u>
Total Net Position	<u>\$ 2,931,838</u>	<u>\$ 7,152,455</u>

The following are significant transactions that have had an impact on the Statement of Net Position:

- The Unit transferred capital assets net of accumulated depreciation of \$3,775,079 to the Town of Glenburn and Veazie. In addition the Unit recorded a receivable of \$829,550 for the payments remaining on long-term debt that is the responsibility of the Town of Glenburn.
- The Unit recorded depreciation expense of \$319,809 for the year ended June 30, 2014. The Unit also recorded interest expense of \$265,724 the year ended June 30, 2014.

Regional School Unit No. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)
June 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table presents a summary of the Unit's operations for the fiscal year ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
REVENUES		
Charges for services and other	\$ 2,559,145	\$ 1,390,177
Operating grants and contributions	1,290,121	2,359,164
Capital grants and contributions	302,638	234,040
General revenues		
Local assessments	5,674,080	11,682,729
State subsidy	2,823,766	7,839,755
Interest income	2,487	5,554
Miscellaneous	<u>10,245</u>	<u>14,059</u>
Total Revenues	<u>12,662,482</u>	<u>23,525,478</u>
EXPENSES		
Regular instruction	\$ 4,663,618	\$10,060,400
Special education	2,132,832	3,331,119
Other instruction	417,084	535,027
Career and technical education	74,540	176,768
Student and staff support	739,344	1,374,365
System administration	541,868	550,605
School administration	584,482	942,766
Student transportation	258,843	716,793
Facilities and operations	1,147,521	2,045,251
Federal, state and local grant expense	327,583	633,801
Adult education	133,156	112,176
On-behalf payments – State of Maine	731,076	1,402,898
Food service	251,896	476,063
Principal and interest paid on-behalf of Veazie	-	347,907
Interest and other charges	220,136	265,724
Capital outlay	<u>18,311</u>	<u>69,736</u>
Total Expenses	<u>12,242,290</u>	<u>23,041,399</u>
Special item- transfers of funds for separation from RSU 26	<u>(4,640,809)</u>	<u>-</u>
Change in net position	<u>(4,220,617)</u>	<u>484,079</u>
Net position, beginning of year	7,152,455	6,983,854
Restatement of net position	-	(315,478)
Net position, beginning of year, restated	<u>7,152,455</u>	<u>6,668,376</u>
Net position, end of year	<u>\$ 2,931,838</u>	<u>\$ 7,152,455</u>

Regional School Unit No. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)
June 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Analysis of the Unit's Operations

Overall the Unit had a total increase in net position of \$420,192 from current year operations excluding special items.

Total revenue include general revenues such as local assessments, state aid to education, and other revenue that is not program specific or charges for services, such as federal grants for special education and fees for hot lunch and adult education.

General revenues for the year ended June 30, 2014 totaled \$8,510,578. Of this amount, \$5,674,080 was from local assessments paid by the Town of Orono, Maine and \$2,823,766 was from the State of Maine. In addition \$12,732 came from interest and other miscellaneous sources.

During the year, the Unit received program specific operating grants and contributions totaling \$1,290,121 and capital grants and contributions of \$302,638. These grants and contributions represent resources that are restricted for use in particular programs and are meant to directly offset the Unit's costs for these various programs. Most of these grants and contributions come from state and federal sources.

Expenses of governmental activities include depreciation expense of \$319,809. Depreciation expense has been allocated and is included in the various function/program expenses of the Unit.

Charges for services and other represent revenues earned by the Unit in return for services provided by the Unit or the use of the Unit's property. These revenues predominately consist of tuition, adult education fees and school lunch revenues. Charges for services totaled \$2,559,145 for the year ended June 30, 2014.

FINANCIAL ANALYSIS OF THE UNIT'S FUNDS

The focus of the Unit's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Unit's financing requirements. As the Unit completed the year, its governmental funds reported a combined fund balance of \$2,709,314, \$1,698,989 lower than the beginning balances, mostly resulting from the transfer of 2,013,669 of assets to the separated towns.

Revenues include intergovernmental revenue of \$3,348,812 and local assessments totaling \$5,714,080. On-behalf payments amounted to \$731,076. Additional information on these "on-behalf" payments can be found in notes to the basic financial statements.

Charges for services contributed \$2,715,535 in total revenue during the year. Of this amount, \$137,349 represents revenues generated from the food service program.

Total governmental fund expenditures before other financing for the year were \$12,456,079. The Unit's debt service totaled \$507,445 for the year.

Regional School Unit No. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)
June 30, 2014

FINANCIAL ANALYSIS OF THE UNIT'S BUDGET

The Unit's final budget varies significantly from the original budget. During the year ended June 30, 2014, the Unit's Board of Directors authorized additional transfers of \$96,400 from the general fund to the School lunch fund to cover deficits of the school lunch program, additional transfers of \$70,693 between general fund costs centers to cover over-expenditures as allowed by State statute. The significant variations between the final budget and the actual results on the budget basis were caused by use of assigned carryover balances to cover the RSU withdrawal transfers.

The following budget transfers were made between cost centers:

Regular instruction	\$(70,693)	decreased
Other instruction	32,966	increased
System administration	20,524	increased
School administration	17,203	increased

The Unit's system administration cost center budget was overspent by \$73,881 as a result of unanticipated legal costs.

The Unit recognized revenues and expenditures on a budget basis that differs from how revenues and expenditures should be recognized under generally accepted accounting principles (GAAP). The principle differences between the two methods are as follows:

- GAAP basis revenues and expenditures include teachers' retirement plan payments made by the state on behalf of the Unit. The Unit's budget basis revenues and expenditures do not include these revenues and expenditures.
- The budget basis revenues and expenditures do not include capital lease debt revenue and offsetting outlay activity. GAAP basis revenues and expenditures include the activity for proper reporting.

During the year, actual revenues exceeded budgeted revenues by \$136,395. Most of this variance resulted from unanticipated intergovernmental revenues.

Budgeted expenditures exceeded actual expenditures by \$575,644.

Excess expenditures and other uses over revenues was \$1,324,563. Accordingly, the budget basis fund balance decreased from \$3,398,831 to 2,074,268. \$1,976,004 of the decrease was caused by the already allocated transfer of funds to the towns separated from the RSU at June 30, 2014. Excluding this item, the Unit had revenues in excess of expenditures of \$651,441.

Regional School Unit No. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)
June 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The following summarizes capital assets at year end:

	Balance June 30, 2013	Removal of assets for separation from RSU	Additions	Retire- ments	Balance June 30, 2014
Land and CIP	\$ 138,750	\$(138,750)	\$ 5,000	\$ -	\$ 5,000
Buildings and improvements	10,326,306	(5,593,207)	77,121	-	4,810,220
Land improvements	301,366	(361,524)	-	-	281,154
Equipment	<u>1,367,886</u>	<u>(20,212)</u>	<u>120,683</u>	<u>(116,983)</u>	<u>1,010,062</u>
Total capital assets	12,134,308	(6,113,693)	202,804	(116,983)	6,106,436
Accumulated depreciation	<u>(3,600,689)</u>	<u>2,338,614</u>	<u>(319,809)</u>	<u>111,133</u>	<u>(1,470,751)</u>
Capital assets, net	<u>\$ 8,533,619</u>	<u>\$(3,775,079)</u>	<u>\$ (117,005)</u>	<u>\$ (5,850)</u>	<u>\$ 4,635,685</u>

Debt Administration

The Unit's debt consists of bonds, several capital leases from various lending sources, and compensated absences liability.

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014
Bonds payable	\$ 933,250	\$ -	\$ (109,250)	\$ 824,000
Capital lease obligations	3,564,014	98,553	(215,573)	3,446,994
Compensated absences	<u>452,664</u>	<u>27,266</u>	<u>(345,155)</u>	<u>134,775</u>
Total	<u>\$4,792,161</u>	<u>\$ 125,819</u>	<u>\$(699,978)</u>	<u>\$4,405,769</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The future of education of RSU #26 schools continues to be impacted by the economic struggles our State and nation are currently experiencing. Our community is very proud of its school and the current level of program offerings. The School Board and administration view the money spent on schools as an investment into our future. We try very hard to develop budgets that are lean yet maintain the current program levels which our community has grown to expect. We anticipate hard decisions in the future that will force us into making cuts that will have a direct relationship on the quality of the programs offered to our students.

REQUEST FOR INFORMATION

The financial report is designed to provide information to the readers of the report with a general overview of the Unit's finances. If you have questions about this report or need any additional information, contact the Superintendent's Office at 10 Goodridge Dr, Orono, Maine, 04473 or call (207) 866-7110.

Regional School Unit No. 26
Statement of Net Position
June 30, 2014

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 2,259,937
Capital lease receivable	3,548
Due from other governments	381,389
Due from IRS - bond interest refund receivable	188,934
Inventories	4,669
Prepaid expenses	2,124
Due from Town of Glenburn for future debt service	829,550
Capital assets being depreciated, net of accumulated depreciation	4,635,685
Total assets	8,305,836
LIABILITIES	
Accounts payable and accrued expenses	70,114
Accrued wages	687,588
Unearned revenue	16,676
Accrued interest payable	193,851
Long-term liabilities	
Due within one year	
Bonds payable	109,250
Capital leases payable	187,251
Compensated absences	29,253
Due in more than one year	
Bonds payable	714,750
Capital leases payable	3,259,743
Compensated absences	105,522
Total liabilities	5,373,998
NET POSITION	
Invested in capital assets	1,194,241
Restricted for grants and contributions	120,909
Unrestricted	1,616,688
Total net position	\$ 2,931,838

Regional School Unit No. 26
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Program Revenue			Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position
	Expenses	Charges for Services and Other	Operating Grants and Contributions		
Governmental activities					
Regular instruction	\$ 4,663,618	\$ 1,881,996	\$ -	\$ -	\$ (2,781,622)
Special education	2,132,832	295,329	44,844	-	(1,792,659)
Other instruction	417,084	-	-	-	(417,084)
Career and technical education	74,540	-	-	-	(74,540)
Student and staff support	739,344	-	-	-	(739,344)
System administration	541,868	244,472	-	-	(297,396)
School administration	584,482	-	-	-	(584,482)
Student transportation	258,843	-	-	-	(258,843)
Facilities maintenance	1,147,521	-	-	-	(1,147,521)
Federal, state and local grant expense	327,583	-	334,075	5,500	11,992
Adult education	133,156	53,995	94,670	-	15,509
On-behalf payments - State of Maine	731,076	-	731,076	-	-
Food service	251,896	83,353	85,456	-	(83,087)
Interest and other charges	220,136	-	-	297,138	77,002
Capital outlay	18,311	-	-	-	(18,311)
Total governmental activities	<u>\$ 12,242,290</u>	<u>\$ 2,559,145</u>	<u>\$ 1,290,121</u>	<u>\$ 302,638</u>	<u>(8,090,386)</u>
General revenues					
Assessments					
Assessments, levied for general purposes					5,674,080
State subsidy					2,823,766
Unrestricted interest earnings					2,487
Miscellaneous					10,245
Special item - transfer to Towns for separation from RSU					<u>(4,640,809)</u>
Total general revenues and special item					<u>3,869,769</u>
Change in net position					(4,220,617)
NET POSITION - BEGINNING					<u>7,152,455</u>
NET POSITION - ENDING					<u>\$ 2,931,838</u>

Regional School Unit No. 26
Balance Sheet
Governmental Funds
June 30, 2014

	<u>General Fund</u>	<u>Other Govern- mental Funds</u>	<u>Total Govern- mental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 2,243,350	\$ 16,587	\$ 2,259,937
Due from other funds	-	57,647	57,647
Due from other governments	342,931	38,458	381,389
Accounts receivable	-	3,548	3,548
Inventories	-	4,669	4,669
Prepaid expenses	2,124	-	2,124
	<u>2,124</u>	<u>-</u>	<u>2,124</u>
Total assets	<u>\$ 2,588,405</u>	<u>\$ 120,909</u>	<u>\$ 2,709,314</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts payable and accrued expenses	\$ 70,114	\$ -	\$ 70,114
Accrued summer teacher pay	687,588	-	687,588
Due to other funds	57,647	-	57,647
	<u>57,647</u>	<u>-</u>	<u>57,647</u>
Total liabilities	<u>815,349</u>	<u>-</u>	<u>815,349</u>
Deferred inflow of resources - unearned revenue	<u>16,676</u>	<u>-</u>	<u>16,676</u>
Fund balances			
Nonspendable for inventory	-	4,669	4,669
Nonspendable for prepaid expenses	2,124	-	2,124
Restricted for school lunch funds	-	16,845	16,845
Restricted for grants and contributions	-	99,395	99,395
Committed for future debt service	60,175	-	60,175
Assigned for projects	31,832	-	31,832
Assigned for next year's budget	443,889	-	443,889
Unassigned	1,218,360	-	1,218,360
	<u>1,218,360</u>	<u>-</u>	<u>1,218,360</u>
Total fund balances	<u>1,756,380</u>	<u>120,909</u>	<u>1,877,289</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,588,405</u>	<u>\$ 120,909</u>	<u>\$ 2,709,314</u>

Regional School Unit No. 26
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2014

Total fund balance, governmental funds	\$	1,877,289
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

Capital assets, net of accumulated depreciation		4,635,685
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Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

Bond interest refund receivable		188,934
Due from other governments - Town of Glenburn		829,550

Certain other liabilities that will not be paid by current assets and are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

Accrued interest payable		(193,851)
Compensated absences liability		(134,775)

Some liabilities, (such as Capital Lease Payable, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.

Bonds and capital leases		(4,270,994)
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Net Position of Governmental Activities in the Statement of Net Position	\$	<u><u>2,931,838</u></u>
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Regional School Unit No. 26
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

	<u>General Fund</u>	<u>Other Govern- mental Funds</u>	<u>Total Govern- mental Funds</u>
REVENUES			
Local assessments	\$ 5,674,080	\$ 40,000	\$ 5,714,080
Intergovernmental revenue	2,868,610	480,202	3,348,812
On-behalf payments - State of Maine	731,076	-	731,076
Charges for services	2,578,186	137,349	2,715,535
Interest	2,559	-	2,559
Other	10,240	-	10,240
	<u>11,864,751</u>	<u>657,551</u>	<u>12,522,302</u>
EXPENDITURES			
Current			
Regular instruction	4,664,129	-	4,664,129
Special education	2,124,162	-	2,124,162
Other instruction	411,033	-	411,033
Career and technical education	74,540	-	74,540
Student and staff support	738,763	-	738,763
System administration	504,882	-	504,882
School administration	605,144	-	605,144
Transportation	258,843	-	258,843
Facilities maintenance	964,685	-	964,685
Federal, state and local grant expense	-	327,583	327,583
Adult education	-	133,156	133,156
On-behalf payments - State of Maine	731,076	-	731,076
Food service	-	248,809	248,809
Debt service			
Principal - other	275,487	-	275,487
Interest and other charges	231,958	-	231,958
Capital outlay	98,553	63,276	161,829
	<u>11,683,255</u>	<u>772,824</u>	<u>12,456,079</u>
Excess (deficiency) of revenues over expenditures	<u>181,496</u>	<u>(115,273)</u>	<u>66,223</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from capital leases	98,553	-	98,553
Bond interest refund	149,904	-	149,904
Transfers in	-	96,400	96,400
Transfers out	(96,400)	-	(96,400)
	<u>152,057</u>	<u>96,400</u>	<u>248,457</u>
SPECIAL ITEM			
Payments to towns separated from RSU 26	<u>(1,976,004)</u>	<u>(37,665)</u>	<u>(2,013,669)</u>
Net change in fund balances	(1,642,451)	(56,538)	(1,698,989)
FUND BALANCES - BEGINNING	<u>3,398,831</u>	<u>177,447</u>	<u>3,576,278</u>
FUND BALANCES - ENDING	<u>\$ 1,756,380</u>	<u>\$ 120,909</u>	<u>\$ 1,877,289</u>

See accompanying notes to basic financial statements.

Regional School Unit No. 26
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

Net change in fund balances - total governmental funds: \$ (1,698,989)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Capital outlays	196,955	
Depreciation expense	<u>(319,809)</u>	(122,854)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold or disposed of. (3,775,079)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.

Debt payment receivable adjustment from other Town		829,550
Bond interest refund revenue		(9,227)

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.

Debt issued		(98,553)
Principal repaid		324,823

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Accrued interest not reflected on Governmental funds		11,823
Compensated absences not reflected on Governmental funds		<u>317,889</u>

Change in net position of governmental activities \$ (4,220,617)

Regional School Unit No. 26
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	<u>\$ 31,386</u>	<u>\$ 111,280</u>
LIABILITIES		
Due to school groups	<u>\$ -</u>	<u>\$ 111,280</u>
NET POSITION		
Held in trust for scholarships	<u><u>\$ 31,386</u></u>	<u><u>\$ -</u></u>

Regional School Unit No. 26
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014

	Private Purpose Trust Funds
ADDITIONS	
Interest	\$ 215
Contributions	475
Total additions	690
DEDUCTIONS	
Scholarship expenses	800
Change in net position	(110)
NET POSITION - BEGINNING	31,496
NET POSITION - ENDING	\$ 31,386

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Regional School Unit No. 26 provides educational services for the Town of Orono. The Unit was assigned a Regional School Unit number by the State Board of Education effective July 1, 2009 to comply with new legislation. Effective July 1, 2013, the Towns of Glenburn and Veazie withdrew from Regional School Unit No. 26.

The accounting and reporting policies of the Unit relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board, when applicable. The more significant accounting policies of the Unit are described below.

A. FINANCIAL REPORTING ENTITY

In evaluating the Unit as a reporting entity, management has addressed all potential component units for which the Unit may be financially accountable and, as such, should be included within the Unit's financial statements. In accordance with GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the Unit is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits or to impose specific financial burdens on the Unit. Additionally, the Unit is required to consider other organizations for which the nature and significance of their relationship with the Unit are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on the application of these criteria, there are no entities that should be included as part of these financial statements.

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements report information of all activities of the Unit, except for fiduciary funds. Governmental activities, which normally are supported by assessments and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Unit has no business-type activities.

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

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The Unit segregates transactions related to certain functions or activities in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and fiduciary activities. The governmental statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column, when applicable. The fiduciary statements aggregate and present each fund type as a separate column on the fund financial statements.

1. Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources.

The Unit has presented the following major governmental fund:

General Fund

The general fund is the primary operating fund of the Unit and always classified as a major fund. This fund is used to account for all financial resources not accounted for in other funds.

2. Fiduciary Funds (not included in government-wide statements)

The Unit has presented the following fiduciary funds:

Private Purpose Trust Funds

Private purpose funds are funds held by the Unit in a trustee capacity and are accounted for in essentially the same manner as a private entity. Capital maintenance of private purpose funds is critical. The Unit accounts for the activities of scholarship accounts using this fund type.

Agency Funds

Agency funds account for assets held by the Unit in a purely custodial capacity and include student activity funds. Since agency funds are custodial in nature, they do not involve the measurement of results of operations.

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenue and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and the fund financial statements for fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities, whether current or non-current, are included on the statement of net position and the operating statements present increases, revenues, and decreases, expenses, in net total position. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for recognition of governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are assessments, intergovernmental revenues and charges for services. All other governmental fund revenues are recognized when received.

E. BUDGETS AND BUDGETARY ACCOUNTING

The Unit's general fund operating budget is approved by referendum in June for the upcoming fiscal year. Assessments are levied against the Town of Orono after the budget is adopted.

Payments made by the State of Maine to the Maine Public Employees Retirement System for teachers and certain other school employees are reported as offsetting revenues and expenditures of the general fund in accordance with generally accepted accounting principles.

Appropriations for the general fund lapse at the end of the fiscal year.

Formal budgets are not adopted for the other funds. Grant procedures for many of the revenues included in the special revenue funds require submission of a budget. However, such budgets are not subject to formal adoption procedures and are normally prepared based upon the grant period which does not necessarily correspond with the Unit's fiscal year.

F. FINANCIAL STATEMENT AMOUNTS

1. Deposits

For purposes of the statement of net position, demand deposits include all checking accounts of the Unit. Additional information is presented in Note 2.

2. Inventories

Inventories of food and supplies in the food service program are valued at the lower of cost or market value using the first-in, first-out method.

3. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the government-wide financial statement of net position. Any residual balances between the governmental activities and fiduciary funds are reported in the statement of net position as "due to/from fiduciary funds".

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

4. Interfund Transfers

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of the governmental funds on the fund financial statements. For the purposes of the government-wide statement of activities, all interfund transfers between individual funds within governmental activities have been eliminated.

5. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column on the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of \$5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-50 years
Improvements	25-100 years
Machinery and Equipment	3-30 years

The Unit has no assets that it considers to be infrastructure. Assets such as parking lots are capitalized as improvements in accordance with the Unit's capitalization policy.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

6. Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. The long-term debt consists of capital leases, general obligation bonds, and compensated absences liability.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures.

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

6. Long-term Debt (Continued)

The Unit's policy regarding compensated absences is as follows:

Sick time:

Upon retirement, all hourly employees with at least ten 10 years of employment, but less than twenty 20 years of employment with the schools comprising RSU 26 shall be reimbursed at their regular hourly rate of pay for unused sick leave up to one thousand one hundred dollars \$1,100.00. Employees with at least twenty 20 years, but less than thirty 30 years of employment with the schools comprising RSU 26 shall be reimbursed under this provision up to one thousand seven hundred dollars \$1,700.00. Employees with thirty 30 or more years of employment within the schools comprising RSU 26 shall be reimbursed under this provision up to two thousand three hundred dollars \$2,300.00.

Upon retirement, all contracted teachers are compensated at the per-diem rate for up to forty 40 days of accumulated sick leave under the Maine Public Employee Retirement System if the employee has been employed by RSU #26 for at least fifteen 15 years and provided that written notice of intention to retire is received by the Superintendent of Schools on or before March 1 of the year prior to the year of retirement. Teachers who provide notice by March 1 of the year prior to retirement shall receive payment by June 30 of the year in which that teacher retires. Teachers who give notice later than March 1 of the year prior to retirement shall receive the payment in July of the year following the year in which that teacher retires.

Vacation:

Employees are required to take their vacation during the year it is awarded. Vacation time may not be carried forward to the next employment year except under unusual circumstances with the permission of the Superintendent or designee. Vacation time that current employees have been allowed to accrue will be honored, but no further unused vacation time can be accrued, except as specified.

Compensated absences liability is reported in the government-wide financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees.

7. Government-wide Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements.

Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for those assets, and adding back unspent proceeds.

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the Unit or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The remaining net position is reported as unrestricted. For expenditures that qualify for either classification, amounts will be first spent from restricted net position then from unrestricted net position.

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

8. Governmental Fund Balances

Fund balance represents the difference between assets and liabilities in the fund financial statements. Fund balance must be properly reported within one of the five fund balance categories listed below:

Nonspendable – such as fund balances associated with inventories or prepaid expenses. The Nonspendable fund balance may also include amounts that are required to be maintained intact, such as the corpus of an endowment fund.

Restricted fund balance category includes amounts that can be used only for the specific purposes stipulated by constitution, grantors or through enabling legislation.

Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority, which is voter approval.

Assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. The Board of Directors is authorized to assign amounts under authority granted by the Unit's budget policies.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The Unit has not formally adopted a fund balance policy, but has implemented GASB 54 based on the definitions above. For expenditures that qualify for multiple categories, amounts will be considered first spent from restricted fund balance, followed by committed fund balance, then assigned fund balance, and finally unassigned fund balance.

9. New Governmental Accounting Standards

During the year ended June 30, 2014, the Unit implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The intent of this statement is to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

10. Recent Accounting Pronouncements

In June, 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The statement is effective for periods beginning after June 15, 2014. The effect of this Statement on the Unit's financial statements is not known at this time.

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2014

NOTE 2. DEPOSITS

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Unit's deposits may not be returned to it. The Unit does not have a deposit policy for custodial credit risk. As of June 30, 2014, the Unit reported deposits of \$2,402,602 with bank balances of \$2,200,635. Of the Unit's total bank balance of \$2,200,635, \$2,072,443 was exposed to custodial credit risk. The entire exposed amount was collateralized by underlying securities held by the related bank, which were not in the Unit's name.

Deposits have been reported as follows:

Reported in governmental funds	\$ 2,259,937
Reported in fiduciary funds	<u>142,666</u>
Total deposits	<u>\$ 2,402,603</u>

NOTE 3. CAPITAL ASSETS

Governmental activities capital asset activity for the year ended June 30, 2014 is as follows:

	Balance June 30, 2013	Removal of assets for separation From RSU	Additions	Disposals/ Retire- ments	Balance June 30, 2014
<i>Capital assets not being depreciated</i>					
Land	\$ 138,750	\$ (138,750)	\$ -	\$ -	\$ -
Construction in progress	<u>138,750</u>	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Total capital assets not being depreciated	<u>138,750</u>	<u>(138,750)</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
<i>Capital assets being depreciated</i>					
Buildings and improvements	10,326,306	(5,593,207)	77,121	-	4,810,220
Equipment	1,367,886	(361,524)	120,683	(116,983)	1,010,062
Land improvements	<u>301,366</u>	<u>(20,212)</u>	<u>-</u>	<u>-</u>	<u>281,154</u>
Total capital assets being depreciated	<u>11,995,558</u>	<u>(5,974,943)</u>	<u>197,804</u>	<u>(116,983)</u>	<u>6,101,436</u>
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(2,565,765)	2,175,545	(239,044)	-	(629,264)
Equipment	(943,155)	157,696	(70,828)	111,133	(745,154)
Land improvements	<u>(91,769)</u>	<u>5,373</u>	<u>(9,937)</u>	<u>-</u>	<u>(96,333)</u>
Total accumulated depreciation	<u>(3,600,689)</u>	<u>2,338,614</u>	<u>(319,809)</u>	<u>111,133</u>	<u>(1,470,751)</u>
Total capital assets being depreciated, net	<u>8,394,869</u>	<u>(3,636,329)</u>	<u>(122,005)</u>	<u>(5,850)</u>	<u>4,630,685</u>
Capital assets, net	<u>\$ 8,533,619</u>	<u>\$ (3,775,079)</u>	<u>\$ (117,005)</u>	<u>\$ (5,850)</u>	<u>\$ 4,635,685</u>

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2014

NOTE 3. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental activities as follows:

Regular instruction	\$ 7,162
Special education	2,848
Other instruction	6,051
System administration	39,249
Facilities maintenance	261,412
Food service	<u>3,087</u>
Total depreciation expense	<u>\$ 319,809</u>

NOTE 4. LONG-TERM LIABILITIES

The following is a summary of long-term liabilities of the Unit for the year ended June 30, 2014:

	<u>Balance</u> <u>June 30,</u> <u>2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30,</u> <u>2014</u>	<u>Portion due</u> <u>within one</u> <u>year</u>
General Obligation Bonds					
<i>Maine Municipal Bond Bank</i>					
1997 general obligation bond due in annual principal installments of \$66,250 through November, 2017; interest due annually at rates from 5.276% to 5.776%.	\$ 331,250	\$ -	\$ (66,250)	\$ 265,000	\$ 66,250
<i>Bangor Savings Bank</i>					
2011 qualified school construction bond due in annual principal installments of \$43,000 through July 2026; interest due semi-annually at 5.04%.	<u>602,000</u>	<u>-</u>	<u>(43,000)</u>	<u>559,000</u>	<u>43,000</u>
Total general obligation bonds payable	933,250	-	(109,250)	824,000	109,250
Capital Leases	3,564,014	98,553	(215,573)	3,446,994	187,251
Compensated Absences*	<u>452,664</u>	<u>27,266</u>	<u>(345,155)</u>	<u>134,775</u>	<u>29,253</u>
Total long-term liabilities	<u>\$4,949,928</u>	<u>\$ 125,819</u>	<u>\$ (669,978)</u>	<u>\$4,405,769</u>	<u>\$ 325,754</u>

General Obligation Bonds Payable

Future maturities of general obligation bonds are as follows:

<u>Year ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 109,250	\$ 43,670	\$ 152,920
2016	109,250	36,952	146,202
2017	109,250	30,746	139,996
2018	109,250	24,534	133,784
2019	43,000	20,239	63,239
2020-2024	215,000	65,465	280,465
2025-2027	<u>129,000</u>	<u>10,694</u>	<u>139,694</u>
	<u>\$ 824,000</u>	<u>\$ 232,300</u>	<u>\$ 1,056,300</u>

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2014

NOTE 4. LONG-TERM LIABILITIES (CONTINUED)

Obligations under capital leases

The Unit is the lessee of copiers and a Qualified School Construction Bond Lease under capital leases expiring in 2019 and 2027. The liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair market value of the asset acquired.

As of June 30, 2014, the Unit had recorded \$4,157,552 in buildings and \$79,263 in equipment related to outstanding capital leases. Amortization of these assets is included with depreciation expense. Accumulated depreciation for these assets at June 30, 2014 is \$516,660. 15,853

Minimum future lease payments under capital leases as of June 30, 2014 are:

2015	\$ 364,375
2016	358,028
2017	351,640
2018	439,208
2019	427,835
2020-2024	1,860,248
2025-2027	<u>976,449</u>
	4,777,783
Less amount representing interest	<u>(1,330,789)</u>
Present value of minimum lease payments	<u>\$ 3,446,994</u>

In accordance with Maine law, no school unit shall incur debt for specific purposes in excess of certain percentages of State valuation of member municipalities. At June 30, 2014, the Unit was in compliance with these limitations.

NOTE 5. INTERFUND TRANSACTIONS

During the course of normal operations the Unit has numerous transactions between funds including expenditures and transfers.

Individual fund interfund receivable and payable balances at June 30, 2014 arising from these transactions, and interfund transfers were as follows:

	<u>Receivables</u>	<u>Payables</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ -	\$ 57,647	\$ -	\$ 96,400
Nonmajor governmental funds				
Special revenue fund	53,353	-	-	-
School lunch fund	<u>4,294</u>	<u>-</u>	<u>96,400</u>	<u>-</u>
	<u>\$ 57,647</u>	<u>\$ 57,647</u>	<u>\$ 96,400</u>	<u>\$ 96,400</u>

The outstanding balances between funds result mainly from short-term cash flow needs that are funded by the general fund, as it hold the Unit's checking account. The transfer of \$96,400 was used to move funds from the general fund to the School lunch fund to cover deficits, in accordance with budgetary authorizations.

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2014

NOTE 6. NET POSITION INVESTED IN CAPITAL ASSETS

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds payable adding back any unspent proceeds. The Unit's net position invested in capital assets, net of related debt was calculated as follows at June 30, 2014:

Capital assets	\$ 6,106,436
Accumulated depreciation	(1,470,751)
Receivable offset to sent service	829,550
Related bonds payable	(824,000)
Related capital leases payable	<u>(3,446,994)</u>
 Total balance	 <u>\$ 1,194,241</u>

NOTE 7. RESTRICTED FUND BALANCES–NON-MAJOR GOVERNMENTAL FUNDS – SPECIAL REVENUE

At June 30, 2014, the Unit maintained restricted fund balances in its special revenue fund for the following programs:

Adult education – Orono	\$ 50,922
Adult education – Hampden	22,001
MELMAC	3,364
Maine math and science	1,318
NSF- Johnson	2,557
OEA – Orono	5,963
Region IV	4,489
Orono library	77
Art (PAL)	2,097
Miscellaneous local grants and donations	581
Transition	<u>6,026</u>
	<u>\$ 99,395</u>

NOTE 8. DEFINED BENEFIT PENSION PLAN

Maine Public Employees Retirement System – Teachers and Other Qualified Educators

All School teachers, plus other qualified educators, participate in the Maine Public Employees Retirement System's teacher group. The teacher's group is a cost-sharing multiple employer defined benefit plan with a special funding situation, established by the Maine State legislature. The Maine Public Employees Retirement System (MainePERS) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the state legislature. The MainePERS issues a publicly available financial report that includes financial statements and required supplementary information for the teacher's group. That report may be obtained by calling 1-800-451-9800.

**Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2014**

NOTE 8. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Maine Public Employees Retirement System (Continued)

Plan members are required to contribute 7.65% of their compensation to the retirement system. The State of Maine Department of Education (DOE) is required, by state statute, to contribute 13.03% of compensation for non-federally funded employees. The Unit is required to contribute 2.65% of compensation to cover the normal costs for non-federally funded employees. The Unit is also required to contribute 16.15% of compensation for federally funded employees.

The contributions for the year ended June 30, 2014 were as follows:

	Covered Payroll	Contribution Percentage	Contribution Amount
Employee contribution	\$ 5,679,613	7.65%	\$ 434,490
State DOE contribution for non-federally funded employees	5,610,711	13.03%	731,076
Employer contribution for normal costs of non-federally funded employees	5,610,711	2.65%	148,684
Employer contribution for federally funded employees	68,902	16.15%	11,128

Maine Public Employees Retirement System – Participating Local District plan (PLD plan)

The Unit has contributed to the MainePERS Participating Local District Consolidated Retirement Plan, a cost-sharing, multiple-employer defined benefit plan. The Unit's payroll for the year ended June 30, 2014 for employees covered by this plan was \$328,787.

Participating employees' benefits vest after five years of service. Prior to five years of service, should an employee terminate their participation in the system, they would receive their contribution plus interest. Beyond the five year period, the employee would receive a certain benefit upon reaching the normal retirement age; this benefit would be computed at that time. A copy of the most recent financial report for the plan may be obtained from the MainePERS or by calling 1-800-451-9800.

Maine Public Employees Retirement System – PLD plan - Funding Status and Progress

Participating Unit employees are required to contribute 6.5% of their annual salary to the Plan by State Statute. The Unit is required to pay contributions as determined on an annual basis by the Plan's actuaries. The contribution requirements of plan members and the Unit are established by and may be amended by the State legislature.

	Year ended 6/30/14		Year ended 6/30/13		Year ended 6/30/12	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Employer	\$21,371	6.5%	\$29,021	5.30%	\$23,548	4.40%
Employee	21,371	6.5%	35,592	6.5%	34,787	6.50

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2014

NOTE 9. INSURANCES AND PARTICIPATION IN PUBLIC ENTITY RISK POOL

The Unit is exposed to various risks of losses related to torts, theft, damage, and destruction of assets, injuries to employees, and natural disasters. The Unit maintains various commercial insurance policies to mitigate these risks to an acceptable level and to limit the Unit's exposure to losses.

The Unit is a member of the Maine School Management Association - Worker Compensation Trust Fund ("Fund"). The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain lower costs for worker's compensation coverage and develop a comprehensive loss control program. The Unit pays an annual premium to the Fund for its worker's compensation coverage. The Unit's agreement with the Fund provides that the fund will be self-sustaining through member premiums and will provide, through commercial companies reinsurance contracts, individual stop loss coverage for member Units for claims in excess of \$500,000 with an excess limit of \$25,000,000.

The Unit is also a member of the Maine School Management Association - Unemployment Compensation Trust Fund ("MSMA"). MSMA was created to formulate, develop and administer a program of modified self-funding for MSMA's membership, obtain lower costs for unemployment compensation coverage and develop a comprehensive loss control program. The Unit contributes to MSMA based on the first \$12,000 of wages for unemployment compensation. Each member has its reserve, which is determined by the actuary. If the reserve is higher than is determined by the actuary, excess contributions are returned to the member. The annual rate set by MSMA's actuary is based on the member's reserve and on estimated future claims. Each member is responsible for its own excess of claims over reserve.

NOTE 10. CONTINGENCIES

With regard to pending legal claims or any unasserted claims, it is not feasible at this time to, predict or determine their outcome. Management believes, however, that settlement amounts, if any, will not have a material adverse effect on the Unit's financial position.

The Unit participates in various intergovernmental grant programs which may be subject to future program compliance audits by the grantors or their representatives. Accordingly, the Unit's compliance with applicable grant requirements may be established at some future date. The amount, if any, of any liabilities arising from the disallowance of expenditures or ineligibility of grant revenues cannot be determined at this time.

NOTE 11. JOINTLY GOVERNED ORGANIZATION

The Unit and various entities in the region have jointly agreed to operate a vocational education school. A separate legal entity known as the United Technologies Center (UTC) was established by State law and is governed by an eight member board, of which one member represents the Unit. Complete financial statements for the UTC can be obtained from the United Technologies Center; 200 Hogan Road, Bangor, Maine, 04401. For the year ended June 30, 2014, UTC assessed the Unit \$72,103 for career and technical education and adult education, and no amounts were outstanding at year end.

Regional School Unit No. 26
Budget and Actual (with Budget to GAAP Differences)
General Fund
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>			<u>Actual Amounts - Budgetary Basis</u>	<u>Budget to GAAP Differences*</u>	<u>Actual Amounts - GAAP Basis</u>
	<u>Original</u>	<u>Budget Changes</u>	<u>Final</u>			
REVENUES						
Local assessments	\$ 5,674,080	\$ -	\$ 5,674,080	\$ 5,674,080	\$ -	\$ 5,674,080
Intergovernmental revenue	2,728,113	-	2,728,113	2,868,610	-	2,868,610
On-behalf payments - State of Maine	-	-	-	-	731,076	731,076
Charges for services	2,594,587	-	2,594,587	2,578,186	-	2,578,186
Interest	500	-	500	2,559	-	2,559
Other	-	-	-	10,240	-	10,240
Total revenues	<u>10,997,280</u>	<u>-</u>	<u>10,997,280</u>	<u>11,133,675</u>	<u>731,076</u>	<u>11,864,751</u>
EXPENDITURES						
Current						
Regular instruction	5,029,841 (a)	(70,693)	4,959,148	4,664,129	-	4,664,129
Special education	2,268,356	-	2,268,356	2,124,162	-	2,124,162
Other instruction	378,067 (a)	32,966	411,033	411,033	-	411,033
Career and technical education	74,540	-	74,540	74,540	-	74,540
Student and staff support	795,304	-	795,304	738,763	-	738,763
System administration	410,477 (a)	20,524	431,001	504,882	-	504,882
School administration	587,941 (a)	17,203	605,144	605,144	-	605,144
Transportation	276,360	-	276,360	258,843	-	258,843
Facilities maintenance	1,100,413	-	1,100,413	964,685	-	964,685
On-behalf payments - State of Maine	-	-	-	-	731,076	731,076
Debt service						
Principal	275,487	-	275,487	275,487	-	275,487
Interest and other charges	232,484	-	232,484	231,958	-	231,958
Capital outlay	-	-	-	-	98,553	98,553
Total expenditures	<u>11,429,270</u>	<u>-</u>	<u>11,429,270</u>	<u>10,853,626</u>	<u>829,629</u>	<u>11,683,255</u>
Excess (deficiency) of revenues over expenditures	<u>(431,990)</u>	<u>-</u>	<u>(431,990)</u>	<u>280,049</u>	<u>(98,553)</u>	<u>181,496</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from capital leases	-	-	-	-	98,553	98,553
Funds transferred for separation from RSU	- (b)	(1,975,162)	(1,975,162)	(1,976,004)	-	(1,976,004)
Use of carryover fund balance	380,783 (b)	1,975,162	2,355,945	-	-	-
Bond interest refund	147,607	-	147,607	149,904	-	149,904
Transfers out	(96,400)	-	(96,400)	(96,400)	-	(96,400)
Total other financing sources (uses)	<u>431,990</u>	<u>-</u>	<u>431,990</u>	<u>(1,922,500)</u>	<u>98,553</u>	<u>(1,823,947)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,642,451)</u>	<u>-</u>	<u>(1,642,451)</u>
FUND BALANCE - BEGINNING				<u>3,398,831</u>	<u>-</u>	<u>3,398,831</u>
FUND BALANCE - ENDING				<u>\$ 1,756,380</u>	<u>\$ -</u>	<u>\$ 1,756,380</u>

(a) adjusted for allowed cost center budget transfers

(b) adjusted for authorized use of carryovers

* - Adjustments necessary to convert the general fund's net change in balances on the budget basis to a GAAP basis are provided below:

Net change in fund balances - budget basis	\$ (1,642,451)
Proceeds from capital leases	98,553
Capital outlay	(98,553)
On-behalf payments revenue	731,076
On-behalf payments expenditures	<u>(731,076)</u>
Net change in fund balances - GAAP basis	<u>\$ (1,642,451)</u>

Regional School Unit No. 26
Budget and Actual (with Variances)
General Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			Actual Amounts - Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Budget Changes	Final		
REVENUES					
Local assessments	\$ 5,674,080	\$ -	\$ 5,674,080	\$ 5,674,080	\$ -
Intergovernmental revenue	2,728,113	-	2,728,113	2,868,610	140,497
Charges for services	2,594,587	-	2,594,587	2,578,186	(16,401)
Interest	500	-	500	2,559	2,059
Other	-	-	-	10,240	10,240
Total revenues	10,997,280	-	10,997,280	11,133,675	136,395
EXPENDITURES					
Current					
Regular instruction	5,029,841 (a)	(70,693)	4,959,148	4,664,129	295,019
Special education	2,268,356	-	2,268,356	2,124,162	144,194
Other instruction	378,067 (a)	32,966	411,033	411,033	-
Career and technical education	74,540	-	74,540	74,540	-
Student and staff support	795,304	-	795,304	738,763	56,541
System administration	410,477 (a)	20,524	431,001	504,882	(73,881)
School administration	587,941 (a)	17,203	605,144	605,144	-
Transportation	276,360	-	276,360	258,843	17,517
Facilities maintenance	1,100,413	-	1,100,413	964,685	135,728
Debt service					
Principal - other	275,487	-	275,487	275,487	-
Interest and other charges	232,484	-	232,484	231,958	526
Total expenditures	11,429,270	-	11,429,270	10,853,626	575,644
Excess (deficiency) of revenues over expenditures	(431,990)	-	(431,990)	280,049	712,039
OTHER FINANCING SOURCES (USES)					
Funds transferred for separation from RSU	- (b)	(1,975,162)	(1,975,162)	(1,976,004)	(842)
Use of carryover fund balances	380,783 (b)	1,975,162	2,355,945	-	(2,355,945)
Bond interest refund	147,607	-	147,607	149,904	2,297
Transfers out	(96,400)	-	(96,400)	(96,400)	-
Total other financing sources (uses)	431,990	-	431,990	(1,922,500)	(2,354,490)
Net change in fund balances	\$ -	\$ -	\$ -	(1,642,451)	\$ (1,642,451)
FUND BALANCE - BEGINNING				3,398,831	
FUND BALANCE - ENDING				<u>\$ 1,756,380</u>	

(a) adjusted for allowed cost center budget transfers

(b) adjusted for authorized use of carryovers

**Regional School Unit No. 26
Budget and Assessment - General Fund
For the Year Ended June 30, 2014**

BUDGET REQUIREMENTS

Operations and indebtedness	\$ 11,429,270
Transfers out	<u>96,400</u>
Total budget requirements	<u>11,525,670</u>

REDUCTIONS OF REQUIREMENTS

Estimated revenues	5,323,200
Bond interest refund	147,607
Utilization of fund balance - budget	<u>380,783</u>
Total reductions of requirements	<u>5,851,590</u>

Net budget requirements	<u><u>\$ 5,674,080</u></u>
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ASSESSMENTS

Orono	<u><u>\$ 5,674,080</u></u>
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Regional School Unit No. 26
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2014

	<u>Special Revenue</u>	<u>School Lunch Program</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 16,587	\$ -	\$ 16,587
Due from other funds	53,353	4,294	57,647
Due from other governments	29,455	9,003	38,458
Accounts receivable	-	3,548	3,548
Inventories	-	4,669	4,669
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 99,395</u>	<u>\$ 21,514</u>	<u>\$ 120,909</u>
LIABILITIES AND FUND BALANCES			
Fund balances			
Nonspendable for inventory	-	4,669	4,669
Restricted	99,395	16,845	116,240
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>99,395</u>	<u>21,514</u>	<u>120,909</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 99,395</u>	<u>\$ 21,514</u>	<u>\$ 120,909</u>

Regional School Unit No. 26
Combining Statement of Revenues, Expenditures and Changes
in Fund Balances - Nonmajor Governmental Funds
For the Year Ended June 30, 2014

	<u>Special Revenue</u>	<u>School Lunch Program</u>	<u>Capital Projects</u>	<u>Totals</u>
REVENUES				
Local assessments	\$ 40,000	\$ -	\$ -	\$ 40,000
Intergovernmental	394,745	85,457	-	480,202
Charges for services	53,995	83,354	-	137,349
Total revenues	<u>488,740</u>	<u>168,811</u>	<u>-</u>	<u>657,551</u>
EXPENDITURES				
Current				
Federal, state and local grant expense	327,583	-	-	327,583
Food service	-	248,809	-	248,809
Adult education	133,156	-	-	133,156
Capital outlay	5,500	-	57,776	63,276
Total expenditures	<u>466,239</u>	<u>248,809</u>	<u>57,776</u>	<u>772,824</u>
Excess (deficiency) of revenues over expenditures	22,501	(79,998)	(57,776)	(115,273)
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>-</u>	<u>96,400</u>	<u>-</u>	<u>96,400</u>
SPECIAL ITEM				
Payments to towns separated from RSU 26	<u>(17,253)</u>	<u>(20,412)</u>	<u>-</u>	<u>(37,665)</u>
Net change in fund balances	5,248	(4,010)	(57,776)	(56,538)
FUND BALANCES - BEGINNING	<u>94,147</u>	<u>25,524</u>	<u>57,776</u>	<u>177,447</u>
FUND BALANCES - ENDING	<u>\$ 99,395</u>	<u>\$ 21,514</u>	<u>\$ -</u>	<u>\$ 120,909</u>

Regional School Unit No. 26
Combining Schedule of Special Revenue Fund Activity
For the Year Ended June 30, 2014

	June 30, 2013	Transfer of funds to			June 30, 2014
	Balance	Towns	Revenues	Expenditures	Balance
Title IA disadvantaged	\$ -	\$ -	\$ 122,201	\$ 122,201	\$ -
Local entitlement	-	-	166,909	166,909	-
Title IIA	-	-	33,188	33,188	-
Adult education - Orono	35,248	-	111,527	95,853	50,922
Adult education - Hampden	21,706	-	37,639	37,344	22,001
Adult education - Glenburn	500	(500)	-	-	-
Adult education - Transitions	-	-	6,026	-	6,026
Board scholarship	-	-	2,500	2,500	-
Homeland security grant	-	-	5,500	5,500	-
Melmac planning grant	3,363	-	-	-	3,363
ME Math and Science	1,318	-	-	-	1,318
Service learn youth advisory group	98	-	-	-	98
Wellness grant	180	-	-	170	10
NSF - Johnson	2,557	-	-	-	2,557
Glueck funds Orono	20	-	-	-	20
Mountcastle MS River - Orono	319	-	-	-	319
OEA Orono	5,287	-	3,250	2,574	5,963
East Asian studies	75	-	-	-	75
Region IV	4,489	-	-	-	4,489
Timber sale	81	-	-	-	81
Glenburn library	16,753	(16,753)	-	-	-
Orono library donations	77	-	-	-	77
Foreign exchange	(21)	-	-	-	(21)
Art (PAL)	2,097	-	-	-	2,097
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Totals	<u>\$ 94,147</u>	<u>\$ (17,253)</u>	<u>\$ 488,740</u>	<u>\$ 466,239</u>	<u>\$ 99,395</u>

Regional School Unit No. 26
Combining Schedule of Agency Fund Activity
For the Year Ended June 30, 2014

	July 1, 2013			June 30, 2014
	Balance	Revenues	Expenditures	Balance
Asa Adams School	\$ 12,521	\$ 9,201	\$ 9,786	\$ 11,936
Orono High School - General	60,702	154,782	139,837	75,647
Orono High School - Athletics	<u>26,104</u>	<u>23,393</u>	<u>25,800</u>	<u>23,697</u>
 Total agency fund activity	 <u>\$ 99,327</u>	 <u>\$ 187,376</u>	 <u>\$ 175,423</u>	 <u>\$ 111,280</u>

**Report on Compliance
With the Requirements of the
Maine School Finance Act**

Board of Directors
Regional School Unit No. 26

We audited the financial statements of Regional School Unit No. 26 as of and for the year ended June 30, 2014, and have issued our report thereon dated January 30, 2015.

The management of Regional School Unit No. 26 is responsible for the Unit's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Unit's compliance with laws and regulations, noncompliance with which could have a material effect on the financial statements of Regional School Unit No. 26.

Title 20-A Sec 6051 requires certain written assurances with respect to school audits. Our audit of compliance with laws and regulations consisted of, at a minimum, the following:

1. The audit has been conducted in accordance with applicable state and federal laws relating to financial and compliance audits as indicated in federal Office of Management and Budget circulars.
2. Budgetary controls were in place.
3. A determination of whether or not the annual financial data submitted to the department is correct.
4. A determination of whether or not the Unit has exceeded its authority to expend funds as provided by the total budget summary article.
5. The Unit has complied with applicable provisions of the Essential Services and Program Funding Act.
6. A determination of whether the school administrative unit has complied with the applicable provisions of the unexpended balances requirements established under section 15004.
7. The Unit has complied with transfer limitations between budget cost centers pursuant to section 1485, subsection 4.
8. The Unit has complied with budget content requirements pursuant to section 15693, subsection 1 and cost center summary budget format requirements pursuant to sections 1305C, 1485, 1701C and 2307.

The results of our tests indicate that, for the items tested, Regional School Unit No. 26 complied with those provisions of Maine laws and regulations. Nothing came to our attention that caused us to believe that, for the items not tested, Regional School Unit No. 26 was not in compliance with Maine laws and regulations.

Brantner Thibodeau & Associates

Bangor, Maine
January 30, 2015

Regional School Unit No. 26
Reconciliation of audit adjustments to MEDMS Financial System
For the Year Ended June 30, 2014

	General Fund	Special Revenue Funds	School Lunch Program	Totals
<i>June 30 balance as per MEDMS Financial System</i>	\$ 3,564,113	\$ (69,383)	\$ 43,185	\$ 3,537,915
Beginning Fund Balance Adjustments	(1,976,004)	289,424	(18,116)	(1,704,696)
Adjusted Revenues Total	226,697	(120,646)	3,438	109,489
Adjusted Expenditures Total	<u>(58,426)</u>	<u>-</u>	<u>(6,993)</u>	<u>(65,419)</u>
<i>Unaudited GAAP Basis Fund Balance</i>	<u>\$ 1,756,380</u>	<u>\$ 99,395</u>	<u>\$ 21,514</u>	<u>\$ 1,877,289</u>

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Board of Directors
Regional School Unit No. 26

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Regional School Unit No. 26, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Regional School Unit No. 26's basic financial statements, and have issued our report thereon dated January 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Regional School Unit No. 26's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Regional School Unit No. 26's internal control. Accordingly, we do not express an opinion on the effectiveness of Regional School Unit No. 26's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency noted below, to be a material weakness.

The Unit has an ineffective system of internal control over financial reporting. system of controls over financial reporting which resulted in material audit adjustments. Including, ineffective reviews of transactions, accounting entries or system outputs leading to material adjustments

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Regional School Unit No. 26's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management of Regional School Unit No. 26, in a separate letter dated January 30, 2015.

Regional School Unit No. 26's Response to Findings

Regional School Unit No. 26's response to the finding identified in our audit is described as follows: Management of Regional School Unit No. 26 will insure that staff is adequately trained and review of financial records and transactions is maintained throughout the year including identification of accounting entries needed on a timely basis.

Regional School Unit No. 26's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Charlene Whibodan & Associates

January 30, 2015

Regional School Unit No. 26
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures
U.S. Department of Education			
<i>Passed through State Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	013-05A-3107-13	\$ 122,201
Title IIA - Improving teacher quality	84.367	013-05A-3042-11	33,188
Special Education - Grants to States	84.027	013-05A-3046-12	<u>166,909</u>
Total U.S. Department of Education			<u>322,298</u>
U.S. Department of Homeland Security			
<i>Passed through State Department of Education</i>			
Homeland security grant	97.067	013-05A-4313-30	<u>5,500</u>
U.S. Department of Agriculture			
<i>Passed through State Department of Education</i>			
National school lunch program	10.555	013-05A-3024-05	74,544
School breakfast program	10.553	013-05A-3014-05	<u>17,206</u>
Total U.S. Department of Agriculture			<u>91,750</u>
Total expenditure of federal awards			<u><u>\$ 419,548</u></u>