

Regional School Unit No. 26

ANNUAL FINANCIAL STATEMENTS
(with required and other supplementary information)

For the Year Ended June 30, 2015

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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, 2015, 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 did not audit the Schedules of Pension Amounts by Employer reported by the State of Maine Public Employees Retirement System, which provides information used to calculate the amounts recognized in the financial statements of Regional School Unit No. 26 as deferred outflows and deferred inflows related to pensions, net pension liability, pension expense, and pension revenue of governmental activities. Those schedules were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Regional School Unit No. 26, is based solely on the report of the other auditors and certain other procedures related to the allocation percentage and the amounts allocated to Regional School Unit No. 26 based on the allocation percentage. 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, based on our audit and the report of other auditors, 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, 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.

Change in Accounting Principles

As discussed in Note 1 to the financial statements, in the year ended June 30, 2015, the Unit adopted new accounting guidance, Statement of Governmental Accounting Standards (GASB Statement) No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Our opinion is not modified with respect to 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, budgetary comparison information and pension information on pages 6 through 13 and 40 through 45 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 3 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 3, 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.

Barbara Shiodian & Associates

January 13, 2016

Regional School Unit No. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)
June 30, 2015

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, 2015. 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 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 governmental activities cash and cash equivalents at June 30, 2015 was \$237,257 and investments totaled \$2,192,907.
- Under the government-wide basis of reporting, the Unit's total net position was \$2,900,648 at June 30, 2015.

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, 2015

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, 2015

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 22-39 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 40-45 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 46-48 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 \$2,900,648 as of June 30, 2015.

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, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Net Position for the Period Ending June 30, 2015 and 2014

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

	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 3,694,303	\$ 3,670,151
Capital assets (net of accumulated depreciation)	<u>4,518,040</u>	<u>4,635,685</u>
Total Assets	8,212,343	8,305,836
Current liabilities	1,356,233	968,229
Non-current liabilities	<u>3,984,137</u>	<u>4,405,769</u>
Total Liabilities	5,340,370	5,373,998
Net Position		
Investment in capital assets (net of debt)	1,328,176	1,194,241
Restricted	98,921	120,909
Unrestricted	<u>1,473,651</u>	<u>1,616,688</u>
Total Net Position	<u>\$ 2,900,648</u>	<u>\$ 2,931,838</u>

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

- The Unit recorded depreciation expense of \$303,327 for the year ended June 30, 2015. The Unit also recorded interest expense of \$217,529 the year ended June 30, 2015.

Regional School Unit No. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)
June 30, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table presents a summary of the Unit's operations for the fiscal year ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
REVENUES		
Charges for services and other	\$ 2,250,411	\$ 2,559,145
Operating grants and contributions	1,284,253	1,290,121
Capital grants and contributions	181,443	302,638
General revenues		
Local assessments	5,774,358	5,674,080
State subsidy	2,926,446	2,823,766
State portion of pension contribution	279,604	-
Interest income	1,233	2,487
Miscellaneous	<u>12,437</u>	<u>10,245</u>
Total Revenues	<u>12,710,185</u>	<u>12,662,482</u>
EXPENSES		
Regular instruction	\$ 4,764,956	\$ 4,663,618
Special education	2,150,408	2,132,832
Other instruction	474,650	417,084
Career and technical education	60,861	74,540
Student and staff support	839,952	739,344
System administration	363,810	541,868
School administration	517,050	584,482
Student transportation	278,171	258,843
Facilities and operations	1,251,615	1,147,521
Federal, state and local grant expense	384,941	327,583
Adult education	127,365	133,156
On-behalf payments – State of Maine	752,561	731,076
Food service	253,525	251,896
Interest and other charges	208,106	220,136
Capital outlay	<u>1,578</u>	<u>18,311</u>
Total Expenses	<u>12,429,549</u>	<u>12,242,290</u>
Special item- transfers of funds for separation from RSU 26	<u>-</u>	<u>(4,640,809)</u>
Change in net position	<u>(280,636)</u>	<u>(4,220,617)</u>
Net position, beginning of year	2,931,838	7,152,455
Restatement of net position	<u>(311,826)</u>	<u>-</u>
Net position, beginning of year, restated	<u>2,620,012</u>	<u>7,152,455</u>
Net position, end of year	<u>\$ 2,900,648</u>	<u>\$ 2,931,838</u>

Regional School Unit No. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)
June 30, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Analysis of the Unit's Operations

Overall the Unit had a total increase in net position of \$280,636 from current year operations excluding restatement decrease for pension reporting of \$311,826.

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, 2015 totaled \$8,994,078. Of this amount, \$5,774,358 was from local assessments paid by the Town of Orono, Maine and \$3,206,050 was from the State of Maine. In addition \$13,670 came from interest and other miscellaneous sources.

During the year, the Unit received program specific operating grants and contributions totaling \$1,284,253 and capital grants and contributions of \$181,443. 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 \$303,327. 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 \$2,250,411 for the year ended June 30, 2015.

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 \$1,858,770, \$18,519 lower than the beginning balances.

Revenues include intergovernmental revenue of \$3,417,867 and local assessments totaling \$5,814,358. On-behalf payments amounted to \$752,561. Additional information on these "on-behalf" payments can be found in notes to the basic financial statements.

Charges for services contributed \$2,338,722 in total revenue during the year. Of this amount, \$51,094 represents revenues generated from the food service program.

Total governmental fund expenditures before other financing for the year were \$12,504,389. The Unit's debt service totaled \$495,371 for the year.

Regional School Unit No. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)
June 30, 2015

FINANCIAL ANALYSIS OF THE UNIT'S BUDGET

The Unit's final budget varies significantly from the original budget. During the year ended June 30, 2015, the Unit's Board of Directors authorized additional transfers of \$11,566 between general fund costs centers and additional transfers of \$31,832 from carryover fund balance 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 allowed budget transfers were made between cost centers to cover overexpenditures:

Regular instruction	\$(11,566)	decreased
Special education	4,436	increased
School administration	4,719	increased
Transportation	2,411	increased

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 \$39,568. Most of this variance resulted from unanticipated intergovernmental revenues.

Budgeted expenditures exceeded actual expenditures by \$601,139.

Excess expenditures and other uses over revenues was \$273,861. Accordingly, the budget basis fund balance decreased from \$1,756,380 to 1,482,519.

Regional School Unit No. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)
June 30, 2015

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The following summarizes capital assets at year end:

	Balance June 30, 2014	Additions	Retire- ments	Balance June 30, 2015
Land and CIP	\$ 5,000	\$ -	\$ -	\$ 5,000
Buildings and improvements	4,810,220	30,328	-	4,840,548
Land improvements	281,154	149,950	-	431,104
Equipment	<u>1,010,062</u>	<u>5,404</u>	-	<u>1,015,466</u>
Total capital assets	6,106,436	185,682	-	6,287,118
Accumulated depreciation	<u>(1,470,751)</u>	<u>(303,327)</u>	-	<u>(1,774,077)</u>
Capital assets, net	<u>\$ 4,635,685</u>	<u>\$ 117,645</u>	<u>\$ -</u>	<u>\$ 4,518,040</u>

Debt Administration

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

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015
Bonds payable	\$ 824,000	\$ -	\$ (109,250)	\$ 714,750
Capital lease obligations	3,446,994	-	(187,251)	3,259,743
Net pension liability	492,750	-	(332,979)	159,771
Compensated absences	<u>134,775</u>	<u>20,297</u>	<u>(5,732)</u>	<u>149,340</u>
Total	<u>\$4,405,769</u>	<u>\$ 20,297</u>	<u>\$(635,212)</u>	<u>\$4,283,604</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, 2015

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 237,257
Investments	2,192,907
Other receivable	5,360
Due from other governments	286,690
Due from IRS - bond interest refund receivable	178,566
Inventories	3,996
Prepaid expenses	4,898
Due from Town of Glenburn for future debt service	784,629
Capital assets being depreciated, net of accumulated depreciation	4,518,040
Total assets	8,212,343
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	305,120
LIABILITIES	
Accounts payable and accrued expenses	22,476
Accrued wages	715,039
Unearned revenue	134,822
Long-term liabilities	
Due within one year	
Bonds payable	109,250
Capital leases payable	190,217
Accrued interest payable	184,429
Due in more than one year	
Bonds payable	605,500
Capital leases payable	3,069,526
Net pension liability	159,771
Compensated absences	149,340
Total liabilities	5,340,370
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	276,445
NET POSITION	
Net investment in capital assets	1,328,176
Restricted for grants and contributions	98,821
Unrestricted	1,473,651
Total net position	\$ 2,900,648

See accompanying notes to basic financial statements.

Regional School Unit No. 26
Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Position
		Charges for Services and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Regular instruction	\$ 4,764,956	\$ 1,737,304	\$ -	\$ -	\$ (3,027,652)
Special education	2,150,408	365,722	-	-	(1,784,686)
Other instruction	474,650	-	-	-	(474,650)
Career and technical education	60,861	-	-	-	(60,861)
Student and staff support	839,952	-	-	-	(839,952)
System administration	363,810	65,000	-	-	(298,810)
School administration	517,050	-	-	-	(517,050)
Student transportation	278,171	-	-	-	(278,171)
Facilities maintenance	1,251,615	-	-	-	(1,251,615)
Federal, state and local grant expense	384,941	-	361,296	-	(23,645)
Adult education	127,365	31,291	90,781	-	(5,293)
On-behalf payments - State of Maine	752,561	-	752,561	-	-
Food service	253,525	51,094	79,344	-	(123,087)
Interest and other charges	208,106	-	-	181,443	(26,663)
Capital outlay	1,578	-	271	-	(1,307)
Total governmental activities	\$ 12,429,549	\$ 2,250,411	\$ 1,284,253	\$ 181,443	(8,713,442)
General revenues					
Assessments					
Assessments, levied for general purposes					5,774,358
State subsidy					2,926,446
State portion of pension contribution					279,604
Unrestricted interest earnings					1,233
Miscellaneous					12,437
Total general revenues					8,994,078
Change in net position					280,636
NET POSITION - BEGINNING					2,931,838
Restatement for pension reporting					(311,826)
NET POSITION - BEGINNING, RESTATED					2,620,012
NET POSITION - ENDING					\$ 2,900,648

Regional School Unit No. 26
Balance Sheet
Governmental Funds
June 30, 2015

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Other Govern- mental Funds- School Food Service</u>	<u>Total Govern- mental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 122,624	\$ 114,633	\$ -	\$ -	\$ 237,257
Investments	1,902,275	-	290,632	-	2,192,907
Due from other funds	84,748	-	-	-	84,748
Due from other governments	234,072	42,868	-	9,749	286,689
Accounts receivable	5,360	-	-	-	5,360
Inventories	-	-	-	3,996	3,996
Prepaid expenses	4,898	-	-	-	4,898
	<u>\$ 2,353,977</u>	<u>\$ 157,501</u>	<u>\$ 290,632</u>	<u>\$ 13,745</u>	<u>\$ 2,815,855</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accounts payable and accrued expenses	\$ 22,292	\$ 148	\$ -	\$ 36	\$ 22,476
Accrued summer teacher pay	715,039	-	-	-	715,039
Due to other funds	-	62,528	-	22,220	84,748
	<u>737,331</u>	<u>62,676</u>	<u>-</u>	<u>22,256</u>	<u>822,263</u>
Deferred inflow of resources - unearned revenue	<u>134,127</u>	<u>-</u>	<u>-</u>	<u>695</u>	<u>134,822</u>
Fund balances					
Nonspendable for inventory	-	-	-	3,996	3,996
Nonspendable for prepaid expenses	4,898	-	-	-	4,898
Restricted for grants and contributions	-	94,825	-	-	94,825
Committed for capital projects	-	-	290,632	-	290,632
Committed for future debt service	56,916	-	-	-	56,916
Committed for special education	100,000	-	-	-	100,000
Committed for fuel stabilization	75,000	-	-	-	75,000
Assigned for next year's budget	300,000	-	-	-	300,000
Unassigned non-major fund (deficit)	-	-	-	(13,202)	(13,202)
Unassigned	945,705	-	-	-	945,705
	<u>1,482,519</u>	<u>94,825</u>	<u>290,632</u>	<u>(9,206)</u>	<u>1,858,770</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,353,977</u>	<u>\$ 157,501</u>	<u>\$ 290,632</u>	<u>\$ 13,745</u>	<u>\$ 2,815,855</u>

Regional School Unit No. 26
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2015

Total fund balance, governmental funds	\$	1,858,770
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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		4,518,040
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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		178,566
Due from other governments - Town of Glenburn		784,629

Certain deferred outflows of resources and deferred inflows of resources related to pensions are not reported in this fund statement, but are reported in the governmental activities of the Statement of Net Position.

Deferred outflows related to pensions		305,120
Deferred inflows related to pensions		(276,444)

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		(184,429)
Compensated absences liability		(149,340)

Some liabilities, (such as Capital Lease Payable, Bonds Payable and Net Pension Liability), 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		(4,134,264)
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Net Position of Governmental Activities in the Statement of Net Position	\$	<u>2,900,648</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, 2015

	General Fund	Special Revenue Fund	Capital Projects Fund	Other Govern- mental Funds- School Food Service	Total Govern- mental Funds
REVENUES					
Local assessments	\$ 5,774,358	\$ 40,000	\$ -	\$ -	\$ 5,814,358
Intergovernmental revenue	2,926,446	412,077	-	79,344	3,417,867
On-behalf payments - State of Maine	752,561	-	-	-	752,561
Charges for services	2,256,339	31,289	-	51,094	2,338,722
Interest	1,304	-	271	-	1,575
Other	12,441	-	-	-	12,441
Total revenues	11,723,449	483,366	271	130,438	12,337,524
EXPENDITURES					
Current					
Regular instruction	4,682,691	-	-	-	4,682,691
Special education	2,099,746	-	-	-	2,099,746
Career and technical education	60,861	-	-	-	60,861
Other instruction	462,978	-	-	-	462,978
Student and staff support	860,031	-	-	-	860,031
System administration	351,352	-	-	-	351,352
School administration	547,640	-	-	-	547,640
Transportation	278,171	-	-	-	278,171
Facilities maintenance	1,015,965	-	-	-	1,015,965
Federal, state and local grant expense	-	363,243	-	-	363,243
Adult education	-	124,693	-	-	124,693
On-behalf payments - State of Maine	752,561	-	-	-	752,561
Food service	-	-	-	257,558	257,558
Debt service					
Principal - other	277,842	-	-	-	277,842
Interest and other charges	217,529	-	-	-	217,529
Capital outlay	-	-	151,528	-	151,528
Total expenditures	11,607,367	487,936	151,528	257,558	12,504,389
Excess (deficiency) of revenues over expenditures	116,082	(4,570)	(151,257)	(127,120)	(166,865)
OTHER FINANCING SOURCES (USES)					
Bond interest refund	148,346	-	-	-	148,346
Transfers in	-	-	441,889	96,400	538,289
Transfers out	(538,289)	-	-	-	(538,289)
Total other financing sources (uses)	(389,943)	-	441,889	96,400	148,346
Net change in fund balances	(273,861)	(4,570)	290,632	(30,720)	(18,519)
FUND BALANCES - BEGINNING	1,756,380	99,395	-	21,514	1,877,289
FUND BALANCES (DEFICIT) - ENDING	\$ 1,482,519	\$ 94,825	\$ 290,632	\$ (9,206)	\$ 1,858,770

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, 2015

Net change in fund balances - total governmental funds: \$ (18,519)

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	\$ 185,682	
Depreciation expense	<u>(303,327)</u>	(117,645)

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		(55,288)
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Certain deferred outflows of resources and deferred inflows of resources related to pensions reported in the statement of activities do not require the use of current financial resources and these are not reported in governmental funds:

Deferred outflows of resources		189,711
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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.

Principal repaid		296,501
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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:

Net pension expense	\$ (8,981)	
Accrued interest not reflected on Governmental funds	9,422	
Compensated absences not reflected on Governmental funds	<u>(14,565)</u>	(14,124)

Change in net position of governmental activities		<u>\$ 280,636</u>
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Regional School Unit No. 26
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 30,995	\$ 137,358
LIABILITIES		
Accounts payable	-	7,720
Due to school groups	-	129,638
NET POSITION		
Held in trust for scholarships	<u>\$ 30,995</u>	<u>\$ -</u>

Regional School Unit No. 26
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2015

	Private Purpose Trust Funds
ADDITIONS	
Interest	\$ 293
Contributions	5,996
Total additions	6,289
DEDUCTIONS	
Scholarship expenses	6,680
Change in net position	(391)
NET POSITION - BEGINNING	31,386
NET POSITION - ENDING	\$ 30,995

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015

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.

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, 2015

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 funds:

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.

Special Revenue Fund

The special revenue fund is used to account for the proceeds of specific revenue sources that are legally or contractually restricted to expenditures for specified purposes. This fund includes federal and state grants for specific purposes.

Capital Projects Fund

The capital projects fund is used to account for all resources for the acquisition or construction of capital facilities or items by the Unit as well as the resources held in reserves for future projects.

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.

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS

1. Deposits and Investments

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

Investments are carried at fair value. Additional information, including the composition of investments, 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.

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.

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

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, pension liability 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.

Compensated absences liability is reported in the government-wide financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees. The Unit's policy is described below:

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.

7. 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 both the State Employees and Teachers (SET) Plan and the Participating Local Districts (PLD) Plan and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the respective plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

8. Use of Estimates

Preparation of the Unit's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

9. Government-wide Net Position

Net position represents the difference between asset and deferred outflows and liabilities and deferred inflows in the government-wide financial statements.

Net investment in capital assets 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.

10. 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.

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

11. New Governmental Accounting Standards

During the year ended June 30, 2015, the Unit implemented 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.

During the year ended June 30, 2015, the Unit implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This statement provides guidance on the reporting of pension contributions made between the time of the measurement of the government's net pension obligation, and the end of the government's fiscal reporting year.

12. Recent Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 72, *Fair Value Measurement and Application*. This statement improves accounting and financial reporting by state and local governments by enhancing comparability of financial statements among governments and providing information to financial statement users about the impact of fair value measurements on a government's financial position. The statement is effective for periods beginning after June 15, 2015. The effect of this Statement on the Unit's financial statements is not known at this time.

NOTE 2. DEPOSITS AND INVESTMENTS

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, 2015, the Unit reported deposits of \$405,610 with bank balances of \$479,220. Of the Unit's total bank balance of \$479,220, \$114,633 was exposed to custodial credit risk as this amount was uninsured.

Deposits have been reported as follows:

Reported in governmental funds	\$ 237,257
Reported in fiduciary funds	<u>168,353</u>
Total deposits	<u>\$ 405,610</u>

Investments

Statutes authorize the Unit to invest in certificates of deposit, repurchase agreements, and other available bank investments. In addition, the Unit can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law. The trust fund is also authorized to invest in various instruments in accordance with laws of the State of Maine.

The Unit's investments at June 30, 2015 are as follows:

Repurchase agreements	\$1,727,145
Insured cash sweep	<u>465,762</u>
	<u>\$2,192,907</u>

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk: Custodial credit risk is the risk that in the event of failure of the counterparty, the Unit will not be able to recover the value of its investments. The Unit does not have an investment policy for custodial credit risk. The Unit's investments of \$1,727,145 in repurchase agreements are exposed to custodial credit risk as the investments are not in the Unit's name. They are registered in the name of the Bank's custodian.

Concentration of Credit Risk: The Unit has no investments that meet the criteria to be classified as a concentration of credit risk. The Unit does not have a policy related to concentration of credit risk.

Interest Rate Risk: The Unit does not have a policy related to investment rate risk.

NOTE 3. CAPITAL ASSETS

Governmental activities capital asset activity for the year ended June 30, 2015 is as follows:

	Balance June 30, 2014	Additions	Disposals/ Retire- ments	Balance June 30, 2015
<i>Capital assets not being depreciated</i>				
Construction in progress	\$ -	\$ -	\$ -	\$ -
	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
Total capital assets not being depreciated	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
<i>Capital assets being depreciated</i>				
Buildings and improvements	4,810,220	30,328	-	4,840,548
Equipment	1,010,062	5,404	-	1,015,466
Land improvements	<u>281,154</u>	<u>149,950</u>	<u>-</u>	<u>431,104</u>
Total capital assets being depreciated	<u>6,101,436</u>	<u>185,682</u>	<u>-</u>	<u>6,287,118</u>
<i>Less accumulated depreciation for</i>				
Buildings and improvements	(629,264)	(240,561)	-	(869,825)
Equipment	(745,154)	(42,035)	-	(787,189)
Land improvements	<u>(96,333)</u>	<u>(20,731)</u>	<u>-</u>	<u>(117,064)</u>
Total accumulated depreciation	<u>(1,470,751)</u>	<u>(303,327)</u>	<u>-</u>	<u>(1,774,077)</u>
Total capital assets being depreciated, net	<u>4,630,685</u>	<u>(117,645)</u>	<u>-</u>	<u>4,513,040</u>
Capital assets, net	<u>\$ 4,635,685</u>	<u>\$ (117,645)</u>	<u>\$ -</u>	<u>\$ 4,518,040</u>

Depreciation expense was charged to governmental activities as follows:

Regular instruction	\$ 4,225
Special education	2,848
Other instruction	6,051
System administration	15,863
Facilities maintenance	271,263
Food service	<u>3,087</u>
Total depreciation expense	<u>\$ 303,327</u>

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015

NOTE 4. LONG-TERM LIABILITIES

The following is a summary of long-term liabilities of the Unit for the year ended June 30, 2015:

	Balance June 30, 2014 Restated	Increases	Decreases	Balance June 30, 2015	Portion due within one year
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%.	\$ 265,000	\$ -	\$ (66,250)	\$ 198,750	\$ 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>559,000</u>	<u>-</u>	<u>(43,000)</u>	<u>516,000</u>	<u>43,000</u>
Total general obligation bonds payable	824,000	-	(109,250)	714,750	109,250
Capital Leases	3,446,994	-	(187,251)	3,259,743	190,217
Net pension liability	492,750		(332,979)	159,771	N/A
Compensated Absences	<u>134,775</u>	<u>20,297</u>	<u>(5,732)</u>	<u>149,340</u>	<u>-</u>
Total long-term liabilities	<u>\$4,405,769</u>	<u>\$ 20,297</u>	<u>\$ (635,212)</u>	<u>\$4,283,604</u>	<u>\$ 299,467</u>

General Obligation Bonds Payable

Future maturities of general obligation bonds are as follows:

Year ended June 30	Principal	Interest	Total
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	43,000	17,857	60,857
2021-2025	215,000	53,557	268,557
2026-2027	<u>86,000</u>	<u>4,745</u>	<u>90,745</u>
	<u>\$ 714,750</u>	<u>\$ 188,630</u>	<u>\$ 903,380</u>

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, 2015, 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, 2015 is \$723,324 and \$31,705, respectively.

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015

NOTE 4. LONG-TERM LIABILITIES (CONTINUED)

Obligations under capital leases (Continued)

Minimum future lease payments under capital leases as of June 30, 2015 are:

2016	\$ 358,028
2017	351,640
2018	439,208
2019	427,835
2020	395,085
2021-2025	1,802,359
2026-2027	<u>639,212</u>
	4,413,407
Less amount representing interest	<u>(1,153,664)</u>
Present value of minimum lease payments	<u>\$ 3,259,743</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, 2015, 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, 2015 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	\$84,748	\$ -	\$ -	\$538,289
Special revenue fund	-	62,528	-	-
Capital projects fund	-	-	441,889	-
Nonmajor fund-School lunch fund	<u>-</u>	<u>22,220</u>	<u>96,400</u>	<u>-</u>
	<u>\$84,748</u>	<u>\$84,748</u>	<u>\$538,289</u>	<u>\$538,289</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 and \$441,889 was transferred to the capital projects fund, in accordance with budgetary authorizations.

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015

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, 2015:

Capital assets	\$ 6,292,117
Accumulated depreciation	(1,774,077)
Receivable offset to debt service	784,629
Related bonds payable	(714,750)
Related capital leases payable	<u>(3,259,743)</u>
Total balance	<u>\$ 1,328,176</u>

NOTE 7. RESTRICTED FUND BALANCES – SPECIAL REVENUE FUND

At June 30, 2015, the Unit maintained restricted fund balances in its special revenue fund for the following programs:

Adult education – Orono	\$ 53,049
Adult education – Hampden	17,156
MELMAC	3,364
Maine math and science	1,318
NSF- Johnson	2,557
OEA – Orono	7,090
Region IV	4,489
Art (PAL)	2,097
Miscellaneous local grants and donations	1,064
Transition	<u>2,641</u>
	<u>\$ 94,825</u>

NOTE 8. DEFINED BENEFIT PENSION PLANS

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 State Employee and Teacher (SET) Plan. The SET plan is a cost-sharing multiple employer defined benefit plan with a special funding situation, established by the Maine State legislature. The State of Maine is a non-employer contributing entity in that the State pays the initial unfunded actuarial liability on behalf of teachers, while school districts contribute the normal cost, calculated actuarially, for their teacher members. Eligible employees other than teachers participate in the Maine Public Employees Retirement System's Participating Local District (PLD) Plan. The PLD plan is a multiple-employer cost sharing defined benefit plan. Eligible employers (districts) are defined in Maine statute. 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 SET and PLD plans. That report may be obtained by calling 1-800-451-9800.

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015

NOTE 8. DEFINED BENEFIT PENSION PLANS (CONTINUED)

SET Plan - Contributions

Contribution requirements are established and may be amended by the state legislature. 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 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, 2015 were as follows:

	Covered Payroll	Contribution Percentage	Contribution Amount
Employee contribution	\$ 5,859,314	7.65%	\$ 448,238
State DOE contribution for non-federally funded employees	5,775,599	13.03%	752,561
Employer contribution for normal costs of non-federally funded employees	5,775,599	2.65%	153,053
Employer contribution for federally funded employees	83,714	16.15%	13,520

PLD Plan – Contributions

Participating employees are required to contribute 7.0% 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. The Unit had covered payroll of \$422,655 for the year ended June 30, 2015.

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

Participating Unit employees are required to contribute 7.0% 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 6/30/15		Year ended 6/30/14		Year ended 6/30/13	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Employer	\$32,967	7.8%	\$21,371	6.5%	\$29,021	5.30%
Employee	29,586	7.0%	21,371	6.5%	35,592	6.5%

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015

NOTE 8. PENSION PLANS (CONTINUED)

Net Pension Liability

The collective net pension liability measured as of June 30, 2014 was as follows:

	SET Plan	PLD Plan
Plan collective total pension liability	\$ 12,320,158,783	\$ 2,465,934,744
Less plan net position	<u>(10,337,615,927)</u>	<u>(2,157,675,486)</u>
Plan collective net pension liability	<u>\$ 1,982,542,856</u>	<u>\$ 308,259,258</u>

At June 30, 2015, the Unit reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Unit for contributions to the SET Plan. The amount recognized by the Unit as its proportionate share of the net pension liability and the total portion of the net pension liability that was associated with the Unit were as follows:

	SET Plan	PLD Plan
Unit's proportionate share of the net pension liability	\$ 64,906	\$ 94,865
State's proportionate share of the net pension liability associated with the Unit	<u>5,414,625</u>	<u>-</u>
Total	<u>\$ 5,479,531</u>	<u>\$ 94,865</u>

The net pension liability was measured as of June 30, 2014, and the total collective pension liability used to calculate the net pension liability was determined by actuarial valuations as of that date. The Unit's proportionate share percentage of the collective net pension liability for the SET Plan was .006008%, allocated based on Unfunded Actuarial Liability (UAL) contributions to the plan. This percentage was .011899% at the prior measurement date of June 30, 2013. The Unit's proportionate share percentage of the collective net pension liability for the PLD Plan was 0.061648%, allocated based on adjusted contributions to the plan for the year ended June 30, 2014. This percentage was 0.098480% at the prior measurement date of June 30, 2013.

Pension Expense and Revenue

For the year ended June 30, 2015, the Unit recognized pension expense of \$22,325 related to the SET Plan, made up of the Unit's proportionate share of plan pension expense \$4,031, and net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions \$18,294, and recognized revenue of \$279,604 for support provided by the State.

For the year ended June 30, 2015, the Unit recognized pension income of \$13,344 related to the PLD Plan, made up of the Unit's proportionate share of plan pension expense \$15,409, and net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions \$(28,753).

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015

NOTE 8. PENSION PLANS (CONTINUED)

Deferred Outflows and Inflows of Resources

For the year ended June 30, 2015, the Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SET Plan		PLD Plan	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ -	\$ 325	\$ 11,912	\$ -
Changes of assumptions	4,470	-	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	27,776	-	100,752
Changes in proportion and differences between employer contributions and proportionate share of contributions	99,027	62,439	-	85,153
Employer's contributions to plan subsequent to measurement date of collective net pension liability	<u>156,744</u>	<u>-</u>	<u>32,967</u>	<u>-</u>
Total	<u>\$ 260,241</u>	<u>\$ 90,540</u>	<u>\$ 44,879</u>	<u>\$ 185,905</u>

\$189,711 reported as deferred outflows related to pensions resulting from Unit contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows and outflows will be recognized as pension expense as follows:

Year ended June 30	SET Plan Amount	PLD Plan Amount
2016	\$ 13,423	\$ (49,602)
2017	13,422	(49,602)
2018	(6,944)	(49,601)
2019	<u>(6,944)</u>	<u>(25,188)</u>
	<u>\$ 12,957</u>	<u>\$ (173,993)</u>

Actuarial Assumptions

Actuarial Cost Method

The Entry Age Normal actuarial funding method is used to determine costs. Under this funding method, the total employer contribution rate consists of two elements, the normal cost rate and the unfunded actuarial liability (UAL) rate.

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015

NOTE 8. PENSION PLANS (CONTINUED)

Actuarial Assumptions (Continued)

The individual entry age normal method is used to determine liabilities. Under the individual entry age normal method, a normal cost rate is calculated for each employee. This rate is determined by taking the value, as of age at entry into the plan, of the member's projected future benefits, and dividing it by the value, also as of the member's entry age, of his expected future salary. The normal cost for each employee is the product of his pay and his normal cost rate. The normal cost for the group is the sum of the normal costs for all members.

Experience gains and losses, i.e., decreases or increases in liabilities and/or in assets when actual experience differs from the actuarial assumptions, affect the unfunded actuarial accrued liability.

Asset Valuation Method

The actuarial valuation employs a technique for determining the actuarial value of assets which dampens the swing in the market value. The specific technique adopted in this valuation recognizes in a given year one-third of the investment return that is different from the actuarial assumption for investment return.

Amortization

The net pension liability of the SET Plan is amortized on a level percentage of payroll over the amortization period then in effect under statutory and constitutional requirements. The net pension liability of the PLD Consolidated Plan is amortized on an open basis over a period of fifteen years.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2014 and June 30, 2013 are as follows:

Investment Rate of Return – For the SET Plan, 7.125% per annum for the year ended June 30, 2014 and 7.25% for the year ended June 30, 2013, compounded annually; for the PLD Plans, 7.25% per annum, compounded annually.

Salary Increases, Merit and Inflation – Teachers, 3.50% to 13.5% per year; members of the consolidated plan for PLDs, 3.5% to 9.5% per year.

Mortality Rates – For active State employee members and non-disabled retirees of the State employee plan and PLD plan, the RP2000 Tables projected forward to 2015 using Scale AA are used; for active members and non-disabled retirees of the teachers' plan, the ages are set back two years; for all recipients of disability benefits, the Revenue Ruling 96-7 Disabled Mortality Table for Males and Females is used.

Cost of Living Benefit Increases – 2.55% per annum for State employees and teachers, and 3.12% for participating local districts.

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015

NOTE 8. PENSION PLANS (CONTINUED)

Actuarial Assumptions (Continued)

Expected Rate of Return on Plan Assets

The long-term expected rate of return on pension plan assets 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 class of assets. 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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S Equities	20%	5.2%
Non-U.S. Equities	20%	5.5%
Private Equity	10%	7.6%
Real Assets:		
Real Estate	10%	3.7%
Infrastructure	10%	4.0%
Hard Assets	5%	4.8%
Fixed Income	25%	0.0%

Changes in Assumptions

Differences due to changes in assumptions about future economic or demographic factors or other inputs were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. For the SET Plan, the change in the discount rate from 7.25% to 7.125% was the only change in assumption in the 2014 valuation. There were no changes in assumptions for the PLD Consolidated Plan.

Discount Rate

The discount rate used to measure the collective total pension liability was 7.125% for 2014 and 7.25% for 2013 for the SET Plan, and 7.25% for the PLD Plan. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer entity contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015**

NOTE 8. PENSION PLANS (CONTINUED)

Discount Rate (Continued)

Discount Rate Sensitivity

The following table shows how the collective net pension liability/(asset) as of June 30, 2014 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate. The current rate is 7.125% for the SET Plan and 7.25% for the PLD Consolidated Plan.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
SET Plan	\$ 3,463,277,129	\$ 1,982,542,856	\$ 738,715,359
PLD Plan	480,063,871	117,261,765	(118,767,041)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued MainePERS financial report that includes financial statements and required supplementary information for the SET and PLD plans. That report may be obtained by calling 1-800-451-9800.

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.

Regional School Unit No. 26
Notes to Basic Financial Statements
June 30, 2015

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, 2015, UTC assessed the Unit \$60,861 for career and technical education and adult education, and no amounts were outstanding at year end.

NOTE 12. STABILIZATION COMMITTED FUND BALANCE

The Unit established a fuel stabilization fund balance of \$75,000. Authority to establish the stabilization funds are allowed by a separate warrant article for that purpose and must be approved at the budget meeting and at the budget validation referendum. If the Unit has available fund balances at the end of a fiscal year, the transfer of those funds to the fuel cost stabilization fund may be authorized at a budget meeting or other meeting of the voters. An article authorizing an appropriation or transfer to the fuel cost stabilization fund must be accompanied by a statement that includes the balance in the fuel cost stabilization fund before and after the proposed appropriation or transfer, the amounts expended from the fund in each of the 2 prior fiscal years and, in the case of a transfer, the amount expended from the fund in the current fiscal year.

NOTE 13. DEFICIT FUND BALANCE

The Unit maintained a deficit unassigned fund balance of \$13,202 in the non-major school lunch fund. The Unit plans to address this deficit in the next fiscal years through additional funding.

NOTE 14. RESTATEMENT OF BEGINNING NET POSITION

During the year ended June 30, 2015, the Unit implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements improve 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. As a result of implementing these new principles, the Unit restated its beginning net position on the government-wide statements by \$(311,826), to record net pension liability of (\$492,750) and deferred outflows of \$180,924.

Regional School Unit No. 26
Budget and Actual (with Budget to GAAP Differences)
General Fund
For the Year Ended June 30, 2015

	<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	\$ 5,774,358	\$ -	\$ 5,774,358	\$ 5,774,358	\$ -	\$ 5,774,358
Intergovernmental revenue	2,926,446	-	2,926,446	2,926,446	-	2,926,446
On-behalf payments - State of Maine	-	-	-	-	752,561	752,561
Charges for services	2,229,016	-	2,229,016	2,256,339	-	2,256,339
Interest	1,000	-	1,000	1,304	-	1,304
Other	500	-	500	12,441	-	12,441
Total revenues	10,931,320	-	10,931,320	10,970,888	752,561	11,723,449
EXPENDITURES						
Current						
Regular instruction	5,058,257 (a)	(11,566)	5,046,691	4,682,691	-	4,682,691
Special education	2,095,310 (a)	4,436	2,099,746	2,099,746	-	2,099,746
Other instruction	498,128	-	498,128	462,978	-	462,978
Career and technical education	60,871	-	60,871	60,861	-	60,861
Student and staff support	873,080	-	873,080	860,031	-	860,031
System administration	357,656	-	357,656	351,352	-	351,352
School administration	542,921 (a)	4,719	547,640	547,640	-	547,640
Transportation	275,760 (a)	2,411	278,171	278,171	-	278,171
Facilities maintenance	1,166,164 (b)	31,832	1,197,996	1,015,965	-	1,015,965
On-behalf payments - State of Maine	-	-	-	-	752,561	752,561
Debt service						
Principal	277,842	-	277,842	277,842	-	277,842
Interest and other charges	218,124	-	218,124	217,529	-	217,529
Total expenditures	11,424,113	31,832	11,455,945	10,854,806	752,561	11,607,367
Excess (deficiency) of revenues over expenditures	(492,793)	(31,832)	(524,625)	116,082	-	116,082
OTHER FINANCING SOURCES (USES)						
Use of carryover fund balance	885,778 (b)	31,832	917,610	-	-	-
Bond interest refund	145,304	-	145,304	148,346	-	148,346
Transfers out	(538,289)	-	(538,289)	(538,289)	-	(538,289)
Total other financing sources (uses)	492,793	31,832	524,625	(389,943)	-	(389,943)
Net change in fund balances	\$ -	\$ -	\$ -	(273,861)	-	(273,861)
FUND BALANCE - BEGINNING				1,756,380	-	1,756,380
FUND BALANCE - ENDING				<u>\$ 1,482,519</u>	<u>\$ -</u>	<u>\$ 1,482,519</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	\$ (273,861)
On-behalf payments revenue	752,561
On-behalf payments expenditures	<u>(752,561)</u>
Net change in fund balances - GAAP basis	<u>\$ (273,861)</u>

Regional School Unit No. 26
Budget and Actual (with Variances)
General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts			Actual Amounts - Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Budget Changes	Final		
REVENUES					
Local assessments	\$ 5,774,358	\$ -	\$ 5,774,358	\$ 5,774,358	\$ -
Intergovernmental revenue	2,926,446	-	2,926,446	2,926,446	-
Charges for services	2,229,016	-	2,229,016	2,256,339	27,323
Interest	1,000	-	1,000	1,304	304
Other	500	-	500	12,441	11,941
Total revenues	10,931,320	-	10,931,320	10,970,888	39,568
EXPENDITURES					
Current					
Regular instruction	5,058,257 (a)	(11,566)	5,046,691	4,682,691	364,000
Special education	2,095,310 (a)	4,436	2,099,746	2,099,746	-
Other instruction	498,128	-	498,128	462,978	35,150
Career and technical education	60,871	-	60,871	60,861	10
Student and staff support	873,080	-	873,080	860,031	13,049
System administration	357,656	-	357,656	351,352	6,304
School administration	542,921 (a)	4,719	547,640	547,640	-
Transportation	275,760 (a)	2,411	278,171	278,171	-
Facilities maintenance	1,166,164 (b)	31,832	1,197,996	1,015,965	182,031
Debt service					
Principal - other	277,842	-	277,842	277,842	-
Interest and other charges	218,124	-	218,124	217,529	595
Total expenditures	11,424,113	31,832	11,455,945	10,854,806	601,139
Excess (deficiency) of revenues over expenditures	(492,793)	(31,832)	(524,625)	116,082	640,707
OTHER FINANCING SOURCES (USES)					
Use of carryover fund balances	885,778 (b)	31,832	917,610	-	(917,610)
Bond interest refund	145,304	-	145,304	148,346	3,042
Transfers out	(538,289)	-	(538,289)	(538,289)	-
Total other financing sources (uses)	492,793	31,832	524,625	(389,943)	(914,568)
Net change in fund balances	\$ -	\$ -	\$ -	(273,861)	\$ (273,861)
FUND BALANCE - BEGINNING				1,756,380	
FUND BALANCE - ENDING				\$ 1,482,519	

(a) adjusted for allowed cost center budget transfers

(b) adjusted for authorized use of carryovers

Regional School Unit No. 26
Schedule of the Unit's Proportionate Share of the Net Pension Liability
State Employees and Teachers Plan
Last 10 Fiscal Years*
For the years ended June 30,

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
School Department's proportion of the net pension liability	0.600800%	0.011899%								
School Department's proportionate share of the net pension liability	\$ 64,906	\$ 189,176								
State's proportionate share of the net pension liability associated with the School Department	<u>5,414,625</u>	<u>7,946,464</u>								
Total	<u>\$ 5,479,531</u>	<u>\$ 8,135,640</u>								
School Department's covered-employee payroll	\$ 5,679,613	\$ 10,263,910								
School Department's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1.14%	1.84%								
Plan fiduciary net position as a percentage of the total pension liability	83.91%	76.85%								

* The amounts presented for each fiscal year available were determined as of June 30 of the previous year

Regional School Unit No. 26
 Schedule of Unit Contributions
 State Employees and Teachers Plan
 Last 10 Fiscal Years*
 For the years ended June 30,

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 161,313	\$ 293,111								
Contributions in relation to the contractually required contribution	<u>(161,313)</u>	<u>(293,111)</u>								
Contribution deficiency (excess)	<u>\$ -</u>									
School Department's covered-employee payroll	\$ 5,679,613	\$ 10,263,910								
Contributions as a percentage of covered-employee payroll	2.84%	2.86%								

* The amounts presented for each fiscal year available were determined as of June 30 of the previous year

Regional School Unit No. 26
Schedule of the Unit's Proportionate Share of the Net Pension Liability
Participating Local Districts Plan
Last 10 Fiscal Years*
For the years ended June 30,

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Town's proportion of the net pension liability	0.094848%	0.061648%								
Town's proportionate share of the net pension liability	\$ 94,865	\$ 303,574								
Town's covered-employee payroll	\$ 328,787	\$ 547,560								
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	28.85%	55.44%								
Plan fiduciary net position as a percentage of the total pension liability	94.10%	87.50%								

* The amounts presented for each fiscal year available were determined as of June 30 of the previous year

**Regional School Unit No. 26
 Schedule of Unit Contributions
 Participating Local Districts Plan
 Last 10 Fiscal Years*
 For the years ended June 30,**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 21,371	\$ 29,021								
Contributions in relation to the contractually required contribution	<u>(21,371)</u>	<u>(29,021)</u>								
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>								
Town's covered-employee payroll	\$ 328,787	\$ 547,560								
Contributions as a percentage of covered-employee payroll	6.50%	5.30%								

* The amounts presented for each fiscal year available were determined as of June 30 of the previous year

**Regional School Unit No. 26
Budget and Assessment - General Fund
For the Year Ended June 30, 2015**

BUDGET REQUIREMENTS

Operations and indebtedness	\$ 11,455,945
Transfers out	<u>538,289</u>
Total budget requirements	<u>11,994,234</u>

REDUCTIONS OF REQUIREMENTS

Estimated revenues	5,156,962
Bond interest refund	145,304
Utilization of fund balance - budget	<u>917,610</u>
Total reductions of requirements	<u>6,219,876</u>
Net budget requirements	<u>\$ 5,774,358</u>

ASSESSMENTS

Orono	<u>\$ 5,774,358</u>
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Regional School Unit No. 26
Combining Schedule of Special Revenue Fund Activity
For the Year Ended June 30, 2015

	June 30, 2014		June 30, 2015	
	Balance	Revenues	Expenditures	Balance
Title IA disadvantaged	\$ -	\$ 127,343	\$ 127,343	\$ -
Local entitlement	-	174,268	174,268	-
Title IIA	-	41,790	41,790	-
Adult education - Orono	50,922	87,966	86,018	52,870
Adult education - Hampden	22,001	34,105	38,775	17,331
Adult education - Transitions	6,026	6,148	9,534	2,640
Melmac planning grant	3,363	-	-	3,363
ME Math and Science	1,318	-	-	1,318
Service learn youth advisory group	98	-	-	98
Wellness grant	10	-	-	10
NSF - Johnson	2,557	-	-	2,557
Glueck funds Orono	20	-	-	20
Mountcastle MS River - Orono	319	-	-	319
OEA Orono	5,963	9,896	8,769	7,090
East Asian studies	75	-	75	-
Region IV	4,489	-	-	4,489
Timber sale	81	-	-	81
Orono library donations	77	-	77	-
Rutherford	-	1,850	1,287	563
Foreign exchange	(21)	-	-	(21)
Art (PAL)	2,097	-	-	2,097
	<u>2,097</u>	<u>-</u>	<u>-</u>	<u>2,097</u>
Totals	<u>\$ 99,395</u>	<u>\$ 483,366</u>	<u>\$ 487,936</u>	<u>\$ 94,825</u>

Regional School Unit No. 26
Combining Schedule of Agency Fund Activity
For the Year Ended June 30, 2015

	July 1, 2014			June 30, 2015
	Balance	Revenues	Expenditures	Balance
Asa Adams School	\$ 11,936	\$ 10,724	\$ 11,071	\$ 11,589
Orono High School - General	75,647	151,980	149,066	78,561
Orono High School - Athletics	<u>23,697</u>	<u>17,281</u>	<u>1,470</u>	<u>39,508</u>
 Total agency fund activity	 <u>\$ 111,280</u>	 <u>\$ 179,985</u>	 <u>\$ 161,607</u>	 <u>\$ 129,658</u>

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**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, 2015, and have issued our report thereon dated January 13, 2016.

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

January 13, 2016

Regional School Unit No. 26
Reconciliation of Audit Adjustments to the Annual Financial Data
Submitted to MEDMS Financial System
For the Year Ended June 30, 2015

	General Fund	Special Revenue Funds	School Lunch Program	Capital Projects	Totals
<i>June 30 balance as per MEDMS Financial System</i>	\$ 1,967,839	\$ 64,778	\$ 8,955	\$ (151,528)	\$ 1,890,044
Beginning Fund Balance Adjustments	(18,758)	38,289	(18,116)	-	1,415
Revenue adjustments	(18,119)	49,807	627	442,160	474,475
Expenditure adjustments	<u>(448,440)</u>	<u>(58,047)</u>	<u>(673)</u>	<u>-</u>	<u>(507,160)</u>
Rounding adjustments	<u>(3)</u>	<u>(2)</u>	<u>1</u>	<u>-</u>	<u>(4)</u>
<i>Audited GAAP Basis Fund Balance</i>	<u>\$ 1,482,519</u>	<u>\$ 94,825</u>	<u>\$ (9,206)</u>	<u>\$ 290,632</u>	<u>\$ 1,858,770</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, 2015, 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 13, 2016. Our report includes a reference to other auditors who audited the Schedules of Pension Amounts by Employer reported by the State of Maine Public Employees Retirement System, as described in our report on Regional School Unit No. 26's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control over the Unit's year-end financial close process for reporting, described in a separate letter to management that we consider to be a significant deficiency.

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 13, 2016.

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.

Brantron Shiodian & Associates

January 13, 2016

Regional School Unit No. 26
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

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	\$ 127,343
Title IIA - Improving teacher quality	84.367	013-05A-3042-11	41,790
Special Education - Grants to States	84.027	013-05A-3046-12	<u>174,463</u>
Total U.S. Department of Education			<u>343,596</u>
U.S. Department of Agriculture			
<i>Passed through State Department of Education</i>			
National school lunch program	10.555	013-05A-3024-05	69,046
School breakfast program	10.553	013-05A-3014-05	<u>17,355</u>
Total U.S. Department of Agriculture			<u>86,401</u>
Total expenditure of federal awards			<u>\$ 429,997</u>