

**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
**ANNUAL FINANCIAL REPORT**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2017**

**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
**ANNUAL FINANCIAL REPORT**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2017**

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# PLODZIK & SANDERSON

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## ***INDEPENDENT AUDITOR'S REPORT***

To the Members of the School Board  
School Administrative Unit No. 70  
Hanover, New Hampshire

We have audited the accompanying financial statements of the governmental activities and major fund of the School Administrative Unit No. 70 as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School Administrative Unit's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the School Administrative Unit No. 70, as of June 30, 2017, and the respective changes in financial position and, the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

**Required Supplementary Information** – Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3-7), Schedule of Funding Progress for Other Postemployment Benefit Plan (page 27), the Schedule of Administrative Unit's Proportionate Share of Net Pension Liability (page 28), and the Schedule of School Administrative Unit Contributions (page 29) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the

*School Administrative Unit No. 70  
Independent Auditor's Report*

methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information** – Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Administrative Unit No. 70's basic financial statements. The individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund schedules are the responsibility of management and were 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, the individual fund financial schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

February 1, 2018

*Plodzik & Sanderson  
Professional Association*

**SCHOOL ADMINISTRATIVE UNIT #70**  
**Administrative Agent for the**  
**Hanover, New Hampshire; Norwich, Vermont; and Dresden Interstate School Districts**

**Management's Discussion and Analysis (MD&A)**  
**of the**  
**Annual Financial Report For The Year Ended June 30, 2017**

The Superintendent of Schools and Business Administrator of School Administrative Unit (SAU) #70 offer readers of the SAU's annual financial statements this narrative discussion and analysis of the financial activities of the SAU for the fiscal year which ended June 30, 2017. This discussion and analysis is prepared in accordance with the provisions of the Governmental Accounting Standards Board Statement 34 (GASB 34), and recently adopted GASB Statements 45 and 68. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the annual audited report.

In New Hampshire, the state legislature created School Administrative Units as a means of providing professional management support for groups of the many small school districts throughout the State. SAU 70 is unique in the State of New Hampshire in that of its three member districts, one—Norwich—is a Vermont School District. A second, the Dresden School District, is an “interstate school district” which accepts students from both New Hampshire and Vermont. Thus, SAU 70's service and administrative mandate actually crosses state boundaries, managing schools in two separate states, according to the laws and regulations of those two states.

## **FINANCIAL HIGHLIGHTS**

The SAU's total net position for the year ending June 30, 2017, was (\$1,162,323). Net position decreased by (\$54,351) or 4.9% between July 1, 2016 and June 30, 2017. The SAU's total net position consisted of \$14,948 of capital assets, and (\$1,177,271) of unrestricted net position. Under GASB 68, the SAU's long-term obligations include its pro-rata share of the unfunded liability of in the New Hampshire Retirement System. Under GASB 45, as in other years, significant liability arises from Other Post Employment Benefits. Under GASB 34, these liabilities are reflected as a reduction in net position. Under New Hampshire state law, the SAU is prohibited from issuing bonds.

During the year, the SAU's operating expenses of \$1,524,023 were \$33,859 more than operating revenues of \$1,490,164. Revenues consist primarily of assessments to the three member districts, but the SAU also has a small amount of miscellaneous income.

## **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve to be an introduction to the SAU's annual financial report, which consists of basic financial statements, notes and related financial and compliance information. The SAU's annual financial report consists of four elements: (1) government-wide financial statements; (2) fund financial statements (3) notes to the financial statements; and (4) required supplementary information. This report also contains other supplementary information in addition to the basic financial statements themselves.

The basic financial statements include two kinds of statements that present different views of the SAU based upon measurement focus and basis of accounting. The first two statements are government-wide financial statements that provide both long-term and short-term information about the SAU's overall

financial status. The remaining statements are fund financial statements that focus on individual parts of the SAU, reporting the SAU's operations in more detail than the government-wide statements. The governmental fund statements tell how the SAU's services were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

### ***Government-Wide Financial Statements***

The Government-wide Financial Statements show functions of the SAU that are principally supported by district assessments as Governmental Activities. These functions are also accounted for in the General Fund. The governmental activities of the SAU include superintendent services, special education administration, technology, curriculum development, and business support services including accounting, payroll, and financial reporting.

### ***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. Fund definitions are part of a state and federal mandated uniform accounting system and chart of accounts for all New Hampshire SAU's. The SAU uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The SAU has only one fund, the General Fund. General Fund expenditures are compared to budget in the Budgetary and Actual statement, Exhibit D.

### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The government-wide financial statements—the Statement of Net Position (Exhibit A) and Statement of Activities (Exhibit B) provide a comprehensive summary of governmental activities. The Statement of Net Position may serve, over time, as a useful indicator of a government's financial position. At June 30, 2017, unrestricted net position of the SAU totaled (\$1,177,271). The SAU's negative net position is due to the following: beginning on June 30, 2015, the SAU implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires the SAU to report their proportionate share of the New Hampshire Retirement System's net pension liability based upon their plan contributions for the year. The New Hampshire Retirement System has a statutory funding schedule whose goal is to reach 100% plan funding by June 30, 2039.

Unrestricted net position also includes GASB 45's Other Post Employment Benefits. The SAU has no real property—land or buildings—but rather operates out of space at the Dresden School District's Hanover High School. Finally, the SAU's net position reflects its investment in machinery and equipment

for accounting and administrative operations, less any related debt used to acquire those assets that is still outstanding. The SAU uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the SAU'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. A portion of the net position is invested in capital assets. The SAU's investment in capital assets (furniture, machinery, and technology equipment) is reported net of accumulated depreciation and net of related debt.

***Comparative Statement of Changes in Net Position***

The SAU'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. Summaries of the capital assets, depreciation and long-term debt obligations can be found in the Notes to Financial Statements. Depreciation is included by accounting convention thus the depreciated value of an SAU asset, as reflected in these reports, does not reflect an asset's useful, market or replacement value. A statement of Comparative Net Position for the periods ending June 30, 2016, and June 30, 2017 is shown below.

***Comparative Statement of Changes in Net Position***

	2017	2016	Increase (Decrease)
Current assets	\$ 13,569	\$ 288,637	\$ (275,068)
Non-current assets	14,948	21,646	(6,698)
<b>Total assets</b>	<u>28,517</u>	<u>310,283</u>	<u>(281,766)</u>
<b>Deferred inflows of resources</b>	<u>491,958</u>	<u>139,478</u>	<u>352,480</u>
Current liabilities	3,652	28,138	(24,486)
Non-current liabilities	1,551,357	1,060,024	491,333
<b>Total liabilities</b>	<u>1,555,009</u>	<u>1,088,162</u>	<u>466,847</u>
Deferred outflows of resources	<u>127,789</u>	<u>469,571</u>	<u>(341,782)</u>
Net Investment in Capital Assets	14,948	13,105	1,843
Unrestricted Net Position	<u>(1,177,271)</u>	<u>(1,121,077)</u>	<u>(56,194)</u>
<b>Total Net Position</b>	<u><u>\$(1,162,323)</u></u>	<u><u>\$(1,107,972)</u></u>	<u><u>\$ (54,351)</u></u>

***Statement of Activities***

The Statement of Activities provides an important record of overall expenditures and revenues for the fiscal year. During the 2016-17 year the SAU's total expenses were \$1,544,515, and total revenues were \$1,490,164 resulting in a net decrease in net position of \$54,351. The largest share of revenue, \$1,485,320, was from district assessments. The SAU's expenses were entirely for executive administration.

***Comparative Statement of Changes in Activities***

	FY2017	FY2016	\$ Chg	% Chg
<b>General Revenue:</b>				
School District Assessments	\$ 1,485,320	\$ 1,433,725	\$ 51,595	3.60%
Interest	-	-	-	0.00%
Miscellaneous	4,844	23,043	(18,199)	-78.98%
<b>Total Revenues</b>	<u>1,490,164</u>	<u>1,456,768</u>	<u>33,396</u>	<u>2.29%</u>
<b>Expenses:</b>				
Support Services:				
Executive Administration	1,544,515	1,463,870	80,645	5.51%
<b>Total Expenses</b>	<u>1,544,515</u>	<u>1,463,870</u>	<u>80,645</u>	<u>5.51%</u>
<b>Change in Net Position</b>	<u>(54,351)</u>	<u>(7,102)</u>	<u>(47,249)</u>	<u>665.29%</u>
Net Position, beginning	<u>(1,107,972)</u>	<u>(1,100,870)</u>	<u>(7,102)</u>	<u>0.65%</u>
Net Position, ending	<u><u>\$ (1,162,323)</u></u>	<u><u>\$ (1,107,972)</u></u>	<u><u>\$ (54,351)</u></u>	<u><u>4.91%</u></u>

**FUND FINANCIAL STATEMENTS**

***General Fund***

The SAU's governmental funds include only the General Fund. Information from the fund accounting system is essential in managing budgets as the financial year progresses and is useful in assessing financial resource needs for future operations. The General Fund is what most people think of as "the budget" since it is largely supported by locally raised assessments.

Schedules 1 and 2 detail General Fund activity for 2016-17. Schedule 1 shows that budgeted revenues totaled \$1,506,980, while actual revenues equaled \$1,490,164, an unfavorable variance of \$16,816. District assessments are the lion's share of the SAU's income. Schedule 2 shows that against budgeted appropriations of \$1,516,980 the SAU expended \$1,524,023, an unfavorable balance of \$3,525. Schedule 3 shows the change in unassigned fund deficit ending of (\$1,636).

The SAU utilized no other funds during the 2016-17 fiscal year.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

***Capital Assets***

On June 30, 2017, the SAU reported capital assets of \$14,948 (net of accumulated depreciation). As the SAU owns no real property this was composed entirely of office and computer equipment. The SAU annually invests in new furnishings, computers and peripherals, and printed media.



School Administrative Unit #70  
Management Discussion and Analysis for Fiscal Year 2017

*Statement of Capital Assets*

	6/30/2016	Changes	6/30/2017
<b>Being Depreciated:</b>			
Machinery, equipment, and vehicles	\$ 125,744	\$ -	\$ 125,744
<b>Less Accumulated Depreciation:</b>			
Machinery, equipment, and vehicles	(104,098)	(6,698)	(110,796)
<b>Net Book Value, all capital assets</b>	<u>\$ 21,646</u>	<u>\$ (6,698)</u>	<u>\$ 14,948</u>

*Long-Term Liabilities*

The SAU has no debt outstanding. Its long-term liabilities are comprised only of compensated absences payable, as shown below.

*Long Term Liabilities*

	6/30/2016	\$ Change	6/30/2017
Compensated Absences	\$ 68,464	\$ (25,565)	\$ 42,899
Capital Lease	8,541	(8,541)	-
Net Other Postemployment Benefits	47,979	943	48,922
Pension Related Liability	935,040	524,496	1,459,536
<b>Total Long-Term Debt Outstanding</b>	<u>\$ 1,060,024</u>	<u>\$ 491,333</u>	<u>\$ 1,551,357</u>

**FUTURE BUDGETARY IMPLICATIONS**

The residents of Hanover and Norwich have a long history of strong support for the education of the children of their community and for providing sufficient resources for quality education. There is no indication of any change in this support. Nonetheless, funding for education is a matter of concern in view of constantly changing economic conditions. With financing systems in both states that struggle to equitably fund education on a long-term basis, the prospect of rising tax rates is a concern. Further budgetary challenges will be presented by unavoidable increases in the costs of retirement, health insurance, special education, energy, electricity, heating fuel, and technology. School administrators are constantly mindful of the financial impact of school budgets on the taxpayer. The school board and administration are committed to continually looking for ways to contain cost increases and to keep budgets as low as possible, while at the same time not compromising services to students. Taxpayers have shown patience in that they have not let taxation issues detract from their financial support of their schools.

**Contacting the SAU's Financial Management**

Questions regarding this report should be directed to Jay Badams, Superintendent of Schools, or to Jamie Teague, Business Administrator, at (603-643-6050) or by mail at:

School Administrative Unit #70  
41 Lebanon Street, Suite 2  
Hanover, New Hampshire 03755

***BASIC FINANCIAL STATEMENTS***

**EXHIBIT A**  
**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
**Statement of Net Position**  
**June 30, 2017**

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,712
Investments	160
Accounts receivables	144
Prepaid items	11,553
Capital assets, net of accumulated depreciation	14,948
Total assets	28,517
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Amounts related to pensions	491,958
<b>LIABILITIES</b>	
Accounts payable	632
Accrued salaries and benefits	3,020
Noncurrent obligations:	
Due in more than one year	1,551,357
Total liabilities	1,555,009
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Amounts related to pensions	127,789
<b>NET POSITION</b>	
Net investment in capital assets	14,948
Unrestricted	(1,177,271)
Total net position	\$ (1,162,323)

The notes to the basic financial statements are an integral part of this statement.

**EXHIBIT B**  
**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
*Statement of Activities*  
*For the Fiscal Year Ended June 30, 2017*

	Net (Expense) Revenue and Change in Net Position
Governmental activities:	
Support services:	
Executive administration	\$ (1,544,515)
General revenues:	
School districts' assessments	1,485,320
Miscellaneous	4,844
Total general revenues	1,490,164
Change in net position	(54,351)
Net position, beginning	(1,107,972)
Net position, ending	\$ (1,162,323)

The notes to the basic financial statements are an integral part of this statement.

**EXHIBIT C-1**  
**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
**Governmental Fund**  
**Balance Sheet**  
**June 30, 2017**

	General
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,712
Investments	160
Accounts receivable	144
Prepaid items	11,553
Total assets	\$ 13,569
<b>LIABILITIES</b>	
Accounts payable	\$ 632
Accrued salaries and benefits	3,020
Total liabilities	3,652
<b>FUND BALANCES (DEFICIT)</b>	
Nonspendable	11,553
Unassigned (deficit)	(1,636)
Total fund balances	9,917
Total liabilities and fund balances	\$ 13,569

The notes to the basic financial statements are an integral part of this statement.

**EXHIBIT C-2**  
**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
**Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Position**  
**June 30, 2017**

Total fund balances of the governmental fund (Exhibit C-1)	\$	9,917
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds.		
Cost	\$	125,744
Less accumulated depreciation		<u>(110,796)</u>
		14,948
Certain items are not current financial resources in the governmental funds, but instead are reported in the Statement of Net Position.		
Deferred outflows of resources related to pensions	\$	491,958
Deferred inflows of resources related to pensions		<u>(127,789)</u>
		364,169
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Compensated absences	\$	42,899
Other postemployment benefits		48,922
Net pension liability		<u>1,459,536</u>
		<u>(1,551,357)</u>
Net position of governmental activities (Exhibit A)		<u><u>\$ (1,162,323)</u></u>

The notes to the basic financial statements are an integral part of this statement.

*EXHIBIT C-3*  
*SCHOOL ADMINISTRATIVE UNIT NO. 70*  
*Statement of Revenues, Expenditures, and Changes in Fund Balances*  
*For the Fiscal Year Ended June 30, 2017*

	General
<b>REVENUES</b>	
School districts' assessments	\$ 1,485,320
Other local	4,844
Total revenues	1,490,164
 <b>EXPENDITURES</b>	
Current:	
Support services:	
Executive administration	1,524,023
Net change in fund balances	(33,859)
Fund balances, beginning	43,776
Fund balances, ending	\$ 9,917

The notes to the basic financial statements are an integral part of this statement.

*EXHIBIT C-4*  
*SCHOOL ADMINISTRATIVE UNIT NO. 70*  
*Reconciliation of the Statement of Revenues, Expenditures, and*  
*Changes in Fund Balances of the Governmental Fund to the Statement of Activities*  
*For the Fiscal Year Ended June 30, 2017*

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Net change in fund balances of total governmental funds (Exhibit C-3)		\$ (33,859)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. In the Statement of Activities the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Depreciation expense		(6,698)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Principal repayment of capital leases		8,541
Some expenses reported in the Statement of Activities do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds.		
Decrease in compensated absences payable	\$ 25,565	
Increase in other postemployment benefits	(943)	
Change in net pension liability and deferred outflows and inflows of resources related to pensions	<u>(46,957)</u>	
		<u>(22,335)</u>
Change in net position of governmental activities (Exhibit B)		<u><u>\$ (54,351)</u></u>

The notes to the basic financial statements are an integral part of this statement.



**EXHIBIT D**  
**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non-GAAP Budgetary Basis)**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2017**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
School districts' assessments	\$ 1,485,320	\$ 1,485,320	\$ -
Other local	21,660	4,844	(16,816)
Total revenues	<u>1,506,980</u>	<u>1,490,164</u>	<u>(16,816)</u>
<b>EXPENDITURES</b>			
Support services:			
Executive administration	<u>1,516,980</u>	<u>1,520,505</u>	<u>(3,525)</u>
Net change in fund balance	<u>\$ (10,000)</u>	(30,341)	<u>\$ (20,341)</u>
Increase in nonspendable fund balance		(11,553)	
Unassigned fund balance, beginning		40,258	
Unassigned fund balance (deficit), ending		<u>\$ (1,636)</u>	

The notes to the basic financial statements are an integral part of this statement.

**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2017**

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**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2017**

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

The financial statements of the School Administrative Unit No. 70, New Hampshire (the School Administrative Unit), have been prepared in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

In 2017 the School Administrative Unit implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a government should apply.

**1-A Reporting Entity**

The School Administrative Unit No. 70, in Hanover, New Hampshire is a municipal corporation governed by the respective School Boards of Hanover, Dresden, and Norwich School Districts. In evaluating how to define the School Administrative Unit for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by the GASB. The School Administrative Unit has no component units to include in its reporting entity.

The following is a summary of the more significant accounting policies:

**1-B Government-wide and Fund Financial Statements**

**Government-wide Financial Statements** - The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the primary government. Governmental activities normally are supported through assessments and intergovernmental revenues.

The *Statement of Net Position* presents the financial position of the School Administrative Unit at year-end. This statement includes all of the School Administrative Unit's non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Assessments and other items not meeting the definition of program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenue rather than program revenue. School Administrative Unit No. 70 reported only general revenues during the fiscal year.

**Fund Financial Statements** - Separate financial statements are provided for governmental funds. In the governmental fund financial statements, expenditures are reported by character: current, debt service or facilities acquisition and construction. The School Administrative Unit No. 70 only reported expenditures under the current character during the fiscal year. Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services.

**1-C Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Measurement Focus and Basis of Accounting** - The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources* measurement focus and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School Administrative Unit generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, with the exception of reimbursement based grants, which use a period of one year. District

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assessments, intergovernmental revenue, and other local sources associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

**Financial Statement Presentation** - A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to report financial position and the results of operations, to demonstrate legal compliance, and to aid financial management by segregating transactions related to certain government functions or activities.

The School Administrative Unit reports the following major governmental fund:

**General Fund** – is the School Administrative Unit’s primary operating fund. The general fund accounts for all financial resources. The primary revenue sources include district assessments from Dresden, Hanover, and Norwich School Districts.

***1-D Cash and Cash Equivalents***

The School Administrative Unit considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Deposits with financial institutions consist of demand deposits.

New Hampshire statutes require that the School Administrative Unit treasurer have custody of all money belonging to the School Administrative Unit and pay out the same only upon orders of the School Administrative Unit Board. The treasurer shall deposit all such monies in participation units in the public deposit investment pool established pursuant to NH RSA 383:22 or in solvent banks in the state. Funds may be deposited in banks outside the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations or obligations of the State of New Hampshire in value at least equal to the amount of the deposit in each case.

***1-E Investments***

State statutes place certain limitations on the nature of deposits and investments available as follows:

New Hampshire law authorizes the School Administrative Unit to invest in the following type of obligations:

- Obligations of the United States government;
- The public deposit investment pool established pursuant to RSA 383:22;
- Savings bank deposits; and
- Certificates of deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the State treasurer.

Any person who directly or indirectly receives any such funds or monies for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the School Administrative Unit. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

**Fair Value Measurement of Investments** – In accordance with GASB Statement No. 72 Fair Value Measurement and Application, except for investments measured using the net asset value (NAV) as a practical expedient to estimate fair value, the School Administrative Unit categorizes the fair value measurements of its investments within the fair value hierarchy established by US GAAP. The fair value hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

**Level 1** – Inputs that reflect quoted prices (unadjusted) in active markets for identical assets and liabilities that the School Administrative Unit has the ability to access at the measurement date. Most of the School Administrative Unit’s directly held marketable equity securities would be examples of Level 1 investments.

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**Level 2** – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active. Because they most often are priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held fixed income securities are categorized in Level 2. All of the School Administrative Unit's holdings in U.S. government obligations and corporate bonds would be examples of Level 2 investments.

**Level 3** – Unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative financial instruments. The School Administrative Unit held no Level 3 investments as of June 30, 2017.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level of the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Investments are reported at fair value. If an investment is held directly by the School Administrative Unit and an active market with quoted prices exists, such as for domestic equity securities, the market price of an identical security is used to report fair value and is classified as Level 1. Corporate fixed income securities and certain government securities utilize pricing that may involve estimation using similar securities or trade dates and are classified in Level 2. Fair value for shares in registered mutual funds and exchange traded funds are based on published share prices and classified in Level 1.

**Investments in Certain External Investment Pools** – In accordance with GASB Statement No. 79 the School Administrative Unit held investments with the New Hampshire Public Deposit Investment Pool (NHPDIP) are categorized in Level 2. The NHPDIP measures all of its investments at amortized cost. There are no redemption restrictions and shares may be redeemed by the School Administrative Unit in accordance with the NHPDIP's information statement.

***1-F Receivables***

Receivables in the government-wide and governmental fund financial statements represent amounts due to the School Administrative Unit at June 30, recorded as revenue, which will be collected in the future and consist of accounts receivables.

***1-G Prepaid Items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and governmental fund financial statements and expensed as the items are used.

***1-H Capital Assets***

Capital assets are defined by the School Administrative Unit as assets with an initial individual cost of \$5,000 or more and an estimated life in excess of one year. Capital assets include property, plant, and equipment, infrastructure assets (e.g. roads, sidewalks, drainage, and similar items) and are reported in governmental activities.

The accounting and reporting treatment applied to capital assets associated with a fund are determined by the fund's measurement focus. General capital assets are assets of the School Administrative Unit as a whole. When purchased, such assets are recorded as expenditures in a governmental fund and capitalized as assets in the governmental activities column of the government-wide Statement of Net Position. When cost of general capital assets cannot be determined from available records, estimated historical cost is used.

Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend lives are not capitalized.

In the government-wide financial statements, the cost of property sold or retired, together with the related accumulated depreciation, is removed and any resulting gain or loss is included in income.

Capital assets (equipment) of the School Administrative Unit are depreciated or amortized using the straight-line method over 5 years.

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***1-I Accounts Payable***

Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers as of June 30, 2017.

***1-J Deferred Outflows/Inflows of Resources***

*Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position or fund balance that applies to a future period(s) and thus will not be recognized as an outflow of resources (expenses) until then.

*Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

***1-K Long-term Obligations***

In the government-wide financial statements, other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position.

***1-L Compensated Absences***

The School Administrative Unit's policy allows certain employees to earn varying amounts of vacation pay based on the employee's length of employment. Upon retirement or termination of employment, employees are paid in full for any accrued leave earned as set forth by personnel policy.

An expense and a liability for vacation, sick pay, and salary-related payments are accrued as the leave is earned in the government-wide financial statements. The compensated absences liability is liquidated using funds to which the liability accrued as the accumulated leave is used.

***1-M Defined Benefit Pension Plan***

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* requires participating employers to recognize their proportionate share of collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, and schedules have been prepared to provide employers with their calculated proportionate share of these amounts. The collective amounts have been allocated based on employer contributions during the respective fiscal years. Contributions from employers are recognized when legally due, based on statutory requirements.

The schedules are prepared by New Hampshire Retirement System, and are audited by the plan's independent auditors.

***1-N Net Position/Fund Balances***

Government-wide statements – Equity is classified as net position and displayed in two components:

**Net Investment in Capital Assets** – This classification includes the School Administrative Unit's capital assets, net of accumulated depreciation.

**Unrestricted Net Position** – This classification typically includes unrestricted liquid assets.

**Fund Balance Classifications** – GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides more clearly defined fund balance categories to make sure the nature and extend of the constraints placed on a government's fund balances more transparent. The following classification describes the relative strength of the spending constraints:

**Nonspendable** – This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) legally or contractually required to be maintained intact.

**Unassigned** – This classification is the portion of fund balance that has not been restricted, committed, or assigned for a specific purpose.

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When multiple net position/fund balance classifications are available for use, it is the School Administrative Unit’s policy to utilize the most restricted balances first, then the next most restricted balance as needed. When components of unrestricted fund balance are used, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

**1-O Use of Estimates**

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. These estimates include assessing the collectability of accounts receivable and capital asset useful lives, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from estimates.

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**2-A Budgetary Information**

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the School Administrative Unit’s operations. At its annual meeting, the School Administrative Unit adopts a budget for the current year for the general fund. Except as reconciled below, the budget was adopted on a basis consistent with United States generally accepted accounting principles.

Management may transfer appropriations between operating categories as deemed necessary, but expenditures may not legally exceed budgeted appropriations in total. All annual appropriations lapse at year-end unless encumbered.

Encumbrance accounting, under which purchase orders, contracts, and continuing appropriations (certain projects and specific items not fully expended at year-end) are recognized, is employed in the governmental funds. Encumbrances are not the equivalent of expenditures, and are therefore, reported as part of the assigned fund balance at year-end, and are carried forward to supplement appropriations of the subsequent year.

State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. In the fiscal year 2017, \$10,000 of the beginning general fund unassigned fund balance was applied for this purpose.

**2-B Budgetary Reconciliation to GAAP Basis**

The School Administrative Unit employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis presents the actual results to provide a comparison with the budget. The major difference between the budgetary basis and GAAP basis is as follows:

Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities, but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and commitments (encumbrances) for goods or services not received at year-end. Encumbrances are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no liability exists. The following reconciles the general fund budgetary basis to the GAAP basis:

Expenditures:	
Per Exhibit D (budgetary basis)	\$ 1,520,505
Adjustments:	
Basis difference:	
Encumbrances, beginning	3,518
Per Exhibit C-3 (GAAP basis)	<u>\$ 1,524,023</u>

**2-C Excess of Expenditures over Appropriations**

The general fund had an excess of expenditures over appropriations for the year ended June 30, 2017 in the amount of \$3,525. Overexpenditures were due to the effect of employee turnover on payroll expenditures and recruitment of new employees.

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**DETAILED NOTES ON ALL FUNDS**

**NOTE 3 – CASH AND CASH EQUIVALENTS**

The School Administrative Unit's deposits are entirely covered by federal depository insurance (FDIC). The FDIC currently insures the first \$250,000 of the School Administrative Unit's deposits at each financial institution, per case custodian. As of year-end, the carrying amount of the School Administrative Unit's deposits was \$1,712 and the bank balances totaled \$37,483. Petty cash totaled \$200.

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017 consisted of the following:

	<u>Balance, beginning</u>	<u>Additions</u>	<u>Balance, ending</u>
At cost:			
Being depreciated:			
Equipment	\$ 125,744	\$ -	\$ 125,744
Less accumulated depreciation:			
Equipment	<u>(104,098)</u>	<u>(6,698)</u>	<u>(110,796)</u>
Net book value, all capital assets	<u>\$ 21,646</u>	<u>\$ (6,698)</u>	<u>\$ 14,948</u>

Depreciation expense of \$6,698 was charged to the executive administration function of the School Administrative Unit based on their usage of the related assets.

**NOTE 5 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

Deferred outflows and inflows of resources of \$491,958 and \$127,789, respectively, in the governmental activities as of June 30, 2017 consists of amounts related to pensions, see Note 7 for further information on deferred amounts related to pensions.

**NOTE 6 – LONG-TERM LIABILITIES**

Changes in the School Administrative Unit's long-term liabilities consisted of the following for the year ended June 30, 2017:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>
Capital leases	\$ 8,541	\$ -	\$ (8,541)	\$ -
Compensated absences	68,464	-	(25,565)	42,899
Net other postemployment benefits	47,979	943		48,922
Pension related liability	935,040	524,496	-	1,459,536
Total long-term liabilities	<u>\$ 1,060,024</u>	<u>\$ 525,439</u>	<u>\$ (34,106)</u>	<u>\$ 1,551,357</u>

The School Administrative Unit had no long-term liabilities due within one year for year ended June 30, 2017.

**NOTE 7 – DEFINED BENEFIT PENSION PLAN**

**Plan Description:** The New Hampshire Retirement System (NHRS or the System) is a public employee retirement system that administers one cost-sharing multiple-employer defined benefit pension plan (Pension Plan), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The Pension Plan was established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The Pension Plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State are eligible and required to participate in the Pension Plan. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 54 Regional Drive, Concord, NH 03301.



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**Benefits Provided:** The Pension Plan is divided into two membership groups. State and local employees and teachers belong to Group I. Police and firefighters belong to Group II. All assets are held in a single trust and available to pay retirement benefits to all members.

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

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have nonvested status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the member attains 52.5 years of age by ¼ of 1% or age 60.

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

**Contributions:** The System is financed by contributions from both the employees and the School Administrative Unit. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees are required to contribute 7% of earnable compensation. For fiscal year 2017, the School Administrative Unit contributed 15.67% for teachers and 11.17% for other employees. The contribution requirements for the fiscal years 2015, 2016, and 2017 were \$86,257, \$103,322, and \$105,244, respectively, which were paid in full in each year.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:** At June 30, 2017, the School Administrative Unit reported a liability of \$1,459,536 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School Administrative Unit's proportion of the net pension liability was based on a projection of the School Administrative Unit's long-term share of contributions to the pension plan relative to the projected contributions of all participating towns and School Administrative Units, actuarially determined. At June 30, 2016, the School Administrative Unit's proportion was 0.02744729% which was an increase of 0.00384426% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School Administrative Unit recognized pension expense of \$135,687. At June 30, 2017, the School Administrative Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion	\$ 128,234	\$ 109,359
Net difference between projected and actual investment earnings on pension plan investments	91,316	-
Changes in assumptions	179,622	-
Differences between expected and actual experience	4,056	18,430
Contributions subsequent to the measurement date	88,730	-
Total	<u>\$ 491,958</u>	<u>\$ 127,789</u>

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The \$88,730 reported as deferred outflows of resources related to pensions results from the School Administrative Unit contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	
2017	\$ 43,877
2018	43,877
2019	86,537
2020	95,411
2021	5,737
Totals	<u>\$ 275,439</u>

**Actuarial Assumptions:** The collective total pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2015, using the following actuarial assumptions which, accordingly apply to 2016 measurements:

Inflation:	2.5%
Salary increases:	5.6% average, including inflation
Investment rate of return:	7.25% net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 employee generational mortality tables for males and females, adjusted for mortality improvements using Scale MP-2015, based on last experience study.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2010 – June 30, 2015.

**Long-term Rates of Return:** The long-term expected rate of return on pension plan investment was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. Following is a table presenting target allocations and long-term rates of return for 2016:

Asset Class	Target Allocation	Weighted average long-term expected real rate of return <u>2016</u>
Large Cap Equities	22.50%	4.25%
Small/Mid Cap Equities	7.50%	4.50%
Total domestic equities	<u>30.00%</u>	
Int'l Equities (unhedged)	13.00%	4.75%
Emerging Int'l Equities	7.00%	6.25%
Total international equity	<u>20.00%</u>	
Core Bonds	5.00%	0.64%
Short Duration	2.00%	(0.25%)
Global Multi-Sector Fixed Income	11.00%	1.71%
Absolute Return Fixed Income	7.00%	1.08%
Total fixed income	<u>25.00%</u>	
Private equity	5.00%	6.25%
Private debt	5.00%	4.75%
Opportunistic	5.00%	3.68%
Total alternative investments	<u>15.00%</u>	
Real estate	10.00%	3.25%
Total	<u>100.00%</u>	

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**Discount Rate:** The discount rate used to measure the collective total pension liability was 7.25%. 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 contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the Pension Plan's actuarial funding policy as required by RSA 100-A:16. Based on those 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 investment was applied to all periods of projected benefit payments to determine the collective total pension liability.

**Sensitivity of the School Administrative Unit's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:** The following table presents the School Administrative Unit's proportionate share of the net pension liability calculated using the discount rate of 7.25% as well as what the School Administrative Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Actuarial Valuation Date	1% Decrease 6.25%	Current Single Rate Assumption 7.25%	1% Increase 8.25%
June 30, 2016	<u>\$ 1,114,639</u>	<u>\$ 1,459,536</u>	<u>\$ 1,875,404</u>

**Pension Plan Fiduciary Net Position:** Detailed information about the pension plan's fiduciary net position is available in the separately issued New Hampshire Retirement System Cost-Sharing Multiple Employer Defined Benefit Pension Plan financial report.

**NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**Plan Description and Annual OPEB Cost -** The School Administrative Unit provides postemployment benefit options for health care to eligible retirees, terminated employees, and their dependents in accordance with the provision of various employment contracts. The benefit levels, employee contributions, and employer contributions are governed by the School Administrative Unit's contractual agreements.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported similar to pension plans. GASB Statement No. 45 does not mandate the pre-funding of postemployment benefit liabilities. However, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements.

The School Administrative Unit has only partially funded (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2017:

Annual required contribution/OPEB cost	\$ 31,414
Interest on net OPEB obligation	1,478
Adjustment to annual required contribution	(21,423)
Annual OPEB cost	<u>11,469</u>
Contributions made	(10,526)
Increase in net OPEB obligation	943
Net OPEB obligation - beginning of year	47,979
Net OPEB obligation - end of year	<u>\$ 48,922</u>

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The School Administrative Unit's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2017 and the four preceding years were as follows:

Fiscal Year Ended	Annual OPEB Contribution Cost	Expected Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
June 30, 2017	\$ 31,414	\$ 21,423	68.20%	\$ 48,922
June 30, 2016	\$ 38,000	\$ 33,796	88.94%	\$ 47,979
June 30, 2015	\$ 39,397	\$ 38,624	98.04%	\$ 54,503
June 30, 2014	\$ 37,879	\$ 42,188	111.38%	\$ 56,302

As of July 1, 2016, the date of the most recent actuarial valuation, the actuarial accrued liability (AAL) for benefits was \$191,959, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$191,959. The covered payroll (annual payroll of active employees covered by the plan) was \$899,973 during fiscal year 2017, and the ratio of the UAAL to the covered payroll was 21.33%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for Other Postemployment Benefits Plan, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016 actuarial valuation, the actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return per annum. The projected annual healthcare cost trend is 9% initially, reduced by decrements to an ultimate rate of 5.0% for years 2018 and later. The UAAL is being amortized as a level dollar amount over an open basis. The remaining amortization period at June 30, 2017 was 30 years.

**NOTE 9 – GOVERNMENTAL ACTIVITIES NET POSITION**

Governmental activities net position reported on the government-wide Statement of Net Position at June 30, 2017 include the following:

Net investment in capital assets:	
Net book value of all capital assets	\$ 14,948
Unrestricted	<u>(1,177,271)</u>
Total net position	<u><u>\$(1,162,323)</u></u>

None of the net position is restricted by enabling legislation.

**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2017**

**NOTE 10 – GOVERNMENTAL FUND BALANCES**

Governmental fund balances at June 30, 2017 consist of the following:

<b>Nonspendable:</b>	
Prepaid items	\$ 11,553
<b>Unassigned (deficit)</b>	<b>(1,636)</b>
Total governmental fund balances	<u><u>\$ 9,917</u></u>

**NOTE 11 – RISK MANAGEMENT**

The School Administrative Unit is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2017, the School Administrative Unit was a member of the New Hampshire Public Risk Management Exchange (Primex<sup>3</sup>) Workers' Compensation and Property/Liability Programs. This entity is considered a public entity risk pool, currently operating as common risk management and insurance program for member School Administrative Units and cities.

The New Hampshire Public Risk Management Exchange (Primex<sup>3</sup>) Workers' Compensation and Property/Liability Programs are pooled risk management programs under RSAs 5-B and 281-A. Coverage was provided from July 1 to June 30, 2017 by Primex<sup>3</sup>, which retained \$1,000,000 of each workers' compensation loss, \$500,000 of each liability loss, and \$200,000 of each property loss. The Board has decided to self-insure the aggregate exposure and has allocated funds based on actuarial analysis for that purpose. The estimated net contribution from the School Administrative Unit billed and paid for the year ended June 30, 2017 was \$2,081 for workers' compensation and \$3,356 for property/liability. The workers' compensation section of the self-insurance membership agreement permits Primex<sup>3</sup> to make additional assessments to members should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. GASB Statement No. 10 requires members of a pool with a sharing risk to disclose if such an assessment is probable, and a reasonable estimate of the amount, if any. At this time, Primex<sup>3</sup> foresees no likelihood of any additional assessment for this or any prior year.

**NOTE 12 – SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after the date. Management has evaluated subsequent events through February 1, 2018, the date the June 30, 2017 financial statements were available to be issued, and no events occurred that require recognition or disclosure.

***REQUIRED SUPPLEMENTARY INFORMATION***

**EXHIBIT E**  
**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
**Schedule of Funding Progress for Other Postemployment Benefit Plan**  
**For the Fiscal Year Ended June 30, 2017**

Fiscal Year End	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
June 30, 2017	July 1, 2016	\$ -	\$ 191,959	\$ 191,959	0.00%	\$ 899,973	21.33%
June 30, 2016	July 1, 2015	\$ -	\$ 333,099	\$ 333,099	0.00%	\$ 821,331	40.60%
June 30, 2015	July 1, 2014	\$ -	\$ 357,723	\$ 357,723	0.00%	\$ 793,557	45.08%
June 30, 2014	July 1, 2013	\$ -	\$ 323,169	\$ 323,169	0.00%	\$ 856,539	37.73%
June 30, 2013	July 1, 2012	\$ -	\$ 327,628	\$ 327,628	0.00%	\$ 827,574	39.59%
June 30, 2012	July 1, 2011	\$ -	\$ 191,988	\$ 191,988	0.00%	\$ 758,377	25.32%

The notes to the required supplementary information is an integral part of this schedule.

**EXHIBIT F**  
**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
*Schedule of the School Administrative Unit's Proportionate Share of Net Pension Liability*  
*New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan*  
*For the Fiscal Year Ended June 30, 2017*

Fiscal Year End	Valuation Date	Administrative Unit's Proportion of Net Pension Liability	Proportionate Share of Net Pension Liability	Covered Payroll	Administrative Unit Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2017	July 1, 2016	0.02744729%	\$ 1,459,536	\$ 731,570	199.51%	58.30%
June 30, 2016	July 1, 2015	0.02360303%	\$ 935,040	\$ 622,025	150.32%	65.47%
June 30, 2015	July 1, 2014	0.25287810%	\$ 949,200	\$ 782,097	121.37%	59.81%
June 30, 2014	July 1, 2013	0.28509550%	\$ 1,226,990	\$ 838,301	146.37%	66.32%

The notes to the required supplementary information is an integral part of this schedule.



**EXHIBIT G**  
**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
*Schedule of School Administrative Unit Contributions*  
*New Hampshire Retirement System Cost Sharing Multiple Employer Defined Benefit Plan*  
*For the Fiscal Year Ended June 30, 2017*

Fiscal Year End	Valuation Date	Contractually Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2017	July 1, 2016	\$ 98,283	\$ 98,283	\$ -	\$ 731,570	13.43%
June 30, 2016	July 1, 2015	\$ 79,185	\$ 79,185	\$ -	\$ 622,025	12.73%
June 30, 2015	July 1, 2014	\$ 82,040	\$ 82,040	\$ -	\$ 782,097	10.49%
June 30, 2014	July 1, 2013	\$ 70,890	\$ 70,890	\$ -	\$ 838,301	8.46%

The notes to the required supplementary information is an integral part of this schedule.

**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2017**

***Schedule of Funding Progress for Other Postemployment Benefits (OPEB)***

As required by GASB Statement No. 45, as amended in December 2009 by GASB Statement No. 57, Exhibit E represents the actuarial determined costs associated with the School Administrative Unit's other postemployment benefits at June 30, 2017, and the preceding five years.

The GASB standard on accounting for postretirement benefits other than pensions requires the following disclosures in the financial statements with regard to the retiree benefit liability:

**Actuarial Assumptions:**

Payroll Growth	3.5% per year
Cost Method	Projected Unit Credit with linear proration to decrement
Census Data	Census data was provided by the District in October 2017. We have reviewed it for reasonableness and no material modifications were made to the census data.
Health Care Coverage	
Election Rate	Active employees with current coverage: <ul style="list-style-type: none"> <li>• 100% for Administrators, Administrative Assistants, and Teachers</li> <li>• 50% for all other employees</li> </ul> Active employees with no coverage: 100% <p>Inactive employees with current coverage: 100%</p> Inactive employees with no coverage: 0%
Spousal Coverage	80% of male and 65% of female employees are assumed to be married at retirement. Husbands are assumed to be three years older than wives. Inactive spousal coverage and age is based on actual data.
Mortality	SOA RPH-2016 Total Dataset Mortality Table fully generational using Scale MP-2016
Health Care	
Trend Rates	Annual health care trend rates by plan are as shown below:

<b>FYE</b>	<b>Health</b>	<b>VEHI</b>
2018	8.00%	8.00%
2019	7.50%	7.00%
2020	7.00%	6.00%
2021	6.75%	5.00%
2022	6.50%	5.00%
2023	6.25%	5.00%
2024	6.00%	5.00%
2025	5.75%	5.00%
2026	5.50%	5.00%
2027	5.25%	5.00%
2028+	5.00%	5.00%

NHRS Subsidy is assumed to remain the same in the future.

**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2017**

***Schedule of the School Administrative Unit's Proportionate Share of Net Pension Liability & Schedule of School Administrative Unit Contributions***

As required by GASB Statement No. 68, and as amended by GASB Statement No. 71, Exhibits F and G represent the actuarial determined costs associated with the School Administrative Unit's pension plan at June 30, 2017, and preceding three years.

**Methods and Assumptions Used to Determine Contribution Rates for Fiscal Year 2016:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage-of-Payroll, Closed
Remaining Amortization Period	23 years beginning July 1, 2016 (30 years beginning July 1, 2009)
Asset Valuation Method	5-year smooth market for funding purposes
Price Inflation	2.5% per year
Wage Inflation	3.25% per year
Salary Increases	5.6% Average, including inflation
Municipal Bond Rate	2.85% per year
Investment Rate of Return	7.25% per year
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2015.
Mortality	RP-2014 Employee generational mortality table for males and females, adjusted for mortality improvements using Scale MP -2015, based in the last experience study.

**Other Information:**

Notes	Contribution rates for Fiscal Year 2016 were determined based on the benefit changes adopted under House Bill No. 2 as amended by 011-2513-CofC.
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***INDIVIDUAL FUND SCHEDULES***

**SCHEDULE 1**  
**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
**Major General Fund**  
*Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)*  
*For the Fiscal Year Ended June 30, 2017*

	<u>Estimated</u>	<u>Actual</u>	Variance Positive (Negative)
School district assessment:			
Current appropriation	\$ 1,485,320	\$ 1,485,320	\$ -
Other local sources:			
Investment earnings	60	764	704
Miscellaneous	21,600	4,080	(17,520)
Total from other local sources	<u>21,660</u>	<u>4,844</u>	<u>(16,816)</u>
Total revenues	1,506,980	<u>\$ 1,490,164</u>	<u>\$ (16,816)</u>
Use of fund balance to reduce school district assessment	10,000		
Total revenues and use of fund balance	<u>\$ 1,516,980</u>		

**SCHEDULE 2**  
**SCHOOL ADMINISTRATIVE UNIT NO. 70**  
**Major General Fund**  
*Schedule of Appropriations, Expenditures, and Encumbrances (Non-GAAP Budgetary Basis)*  
*For the Fiscal Year Ended June 30, 2017*

	Encumbered from Prior Year	Appropriations	Expenditures	Variance Positive (Negative)
Current:				
Support services:				
Executive administration	\$ 3,518	\$ 1,516,980	\$ 1,524,023	\$ (3,525)

*SCHEDULE 3  
SCHOOL ADMINISTRATIVE UNIT NO. 70  
Major General Fund  
Schedule of Changes in Unassigned Fund Balance (Non-GAAP Budgetary Basis)  
For the Fiscal Year Ended June 30, 2017*

Unassigned fund balance, beginning		\$ 40,258
Changes:		
Unassigned fund balance used to reduce school district assessment		(10,000)
2016-2017 Budget summary:		
Revenue shortfall (Schedule 1)	\$ (16,816)	
Overdraft of appropriations (Schedule 2)	<u>(3,525)</u>	
2016-2017 Budget deficit		(20,341)
Increase in nonspendable fund balance		<u>(11,553)</u>
Unassigned fund balance (deficit), ending		<u><u>\$ (1,636)</u></u>