

FELCH & COMPANY, LLC  
*Certified Public Accountants*

EASTERN AROOSTOOK REGIONAL  
SCHOOL UNIT #39  
as of  
JUNE 30, 2019

## *Financial Statements*

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

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## Independent Auditors' Report

To the School Board of the  
Eastern Aroostook Regional School Unit #39

### **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 the Eastern Aroostook Regional School Unit #39 as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District'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.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Aroostook Regional School Unit #39, as of June 30, 2019, 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.

To the School Board of the  
Eastern Aroostook Regional School Unit #39

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and pension related data on Pages I through VIII and Schedules 1, 2, 3, 4 and related notes be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Eastern Aroostook Regional School Unit #39's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2019, on our consideration of the Eastern Aroostook Regional School Unit #39's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Eastern Aroostook Regional School Unit #39's internal control over financial reporting and compliance.

*Felch & Company LLC*

December 30, 2019

## Eastern Aroostook Regional School Unit #39

### Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2019

#### UNAUDITED

The discussion and analysis of Eastern Aroostook Regional School Unit #39's (RSU 39) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

#### **Using the Basic Financial Statements:**

This annual report consists of two distinct series of financial statements: district-wide and fund.

The district-wide reports are designed to show the District as a sum of its significant fund activities. The *Statement of Net Position* and *Statement of Activities* provide information about the governmental activities of the whole District, presenting both an aggregate view of District finances and a longer-term view of those finances.

Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds. For RSU 39, the General Fund is the most significant fund.

#### **Reporting the School District as a Whole:**

##### *Statement of Net Position and the Statement of Activities*

While this report contains a breakdown of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2019?". The *Statement of Net Position* and the *Statement of Activities* provide the basis for answering this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting system used by most private sector companies. This basis of accounting takes into consideration all of the current year's revenues and expenses regardless of when cash was received or paid.

These two statements report RSU 39's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Maine, facility conditions, required educational programs and other factors.

## Eastern Aroostook Regional School Unit #39

### Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2019

#### UNAUDITED

#### Reporting the School District's Most Significant Funds

##### Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year-end for spending in future periods. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Position* and the *Statement of Activities*) and the governmental funds is reconciled in the financial statements.

##### Governmental Activities

The *Statement of Activities* reflects the cost of program services and charges for services and sales, grants, and contributions offsetting those services. Exhibit B shows, for governmental activities, the total cost of services and the net cost of services. It identifies the cost of these services supported by tax revenue and unrestricted State of Maine entitlements.

Property taxes made up 21% and the State of Maine provided 56% of total revenues for governmental activities for RSU 39 in 2019. Tuition and fee revenues received from surrounding school districts represent 5%. RSU 39 receives tuition for students attending Caribou High School from Union 122 (New Sweden, Woodland, and Westmanland) as well as Connor and T16R4. RSU 39 also receives tuition for seventh and eighth grade students from Connor that attend the Caribou Middle School and receives secondary tuition revenues for students attending Limestone Community School from Caswell School Department. The remaining 18% includes federal/state grants and other miscellaneous revenues.

Instruction comprises 56% of governmental program expense. This is made up of regular, special education, vocational, adult and other instruction.

Eastern Aroostook Regional School Unit #39

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019

UNAUDITED

**The School District as a Whole**

Recall that the *Statement of Net Position* provides the perspective of the District as a whole. Included in this statement are depreciable or capital assets.

Table 1 provides a summary of the District's net position for 2019 compared to 2018.

**Table 1**  
**Net Position**  
**(In Thousands)**

	<u>2019</u>	<u>2018</u>
<u>Assets:</u>		
Current assets	\$ 2,505	\$ 3,293
Other assets	56,169	4,034
Capital assets, net	<u>10,263</u>	<u>9,979</u>
Total Assets	<u>68,937</u>	<u>17,306</u>
<u>Deferred outflow of resources</u>	<u>47</u>	<u>209</u>
<u>Liabilities:</u>		
Current liabilities	1,364	1,045
Other liabilities	56,041	4,271
Long-term liabilities	<u>1,672</u>	<u>2,143</u>
Total Liabilities	<u>59,077</u>	<u>7,459</u>
<u>Deferred inflow of resources</u>	<u>110</u>	<u>186</u>
<u>Net Position:</u>		
Net investment in capital assets	9,086	8,436
Restricted	224	149
Unrestricted	<u>487</u>	<u>1,285</u>
Total Net Position	<u>\$ 9,797</u>	<u>\$ 9,870</u>

Total net position decreased from \$9,869,523 in 2018 to \$9,797,111 in 2019.

Table 2 shows the changes in net position for the fiscal year 2019 compared to fiscal year 2018.

Eastern Aroostook Regional School Unit #39

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019

UNAUDITED

**Table 2**  
**Change in Net Position**  
**(In Thousands)**

	<u>2019</u>	<u>2018</u>
Revenues:		
Program Revenues		
Charges for Services and Sales	\$ 354	\$ 386
Operating Grants and Contributions	2,764	2,506
Capital Grants and Contributions	<u>1</u>	<u>38</u>
Total Program Revenues	<u>3,119</u>	<u>2,930</u>
General Revenues:		
Property Taxes	4,382	4,260
State Subsidies	11,775	10,382
Tuition and Fees	1,047	967
Rental	197	219
Other	<u>550</u>	<u>263</u>
Total General Revenues	<u>17,951</u>	<u>16,091</u>
Total Revenues	<u>21,070</u>	<u>19,021</u>
Program Expenses:		
Instruction	11,938	11,362
Support Services:		
Student and Staff Support	1,731	1,635
Food Service	597	560
Administration - Office and School	1,641	1,564
Operation and Maintenance	2,564	2,491
Pupil Transportation	1,134	866
Interest Expense	665	61
On-behalf pension & OPEB	<u>873</u>	<u>857</u>
Total Expenses	<u>21,143</u>	<u>19,396</u>
Change in Net Position	(73)	(375)
Transfer to Town of Limestone	<u>-</u>	<u>(518)</u>
(Decrease) in Net Position	\$ <u>(73)</u>	\$ <u>(893)</u>

Eastern Aroostook Regional School Unit #39

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019

UNAUDITED

**Capital Assets and Debt Administration:**

***Capital Assets***

At the end of fiscal year 2019, the RSU 39 had net capital assets of \$10,263,492 invested in land, buildings, equipment, and vehicles. Table 3 shows capital assets, net of accumulated depreciation.

**Table 3**  
**Capital Assets at June 30**  
**(Net of Depreciation, in Thousands)**

	<u>2019</u>	<u>2018</u>
Land	\$ 877	\$ 652
Buildings	7,750	7,851
Improvements	20	43
Equipment	<u>1,616</u>	<u>1,433</u>
Totals	\$ <u>10,263</u>	\$ <u>9,979</u>

Some acquired assets in fiscal year 2018-2019 were:

- Two school buses
- Heavy Equipment for the Tech Center
- Structural Reconstruction to Caribou High School Administrative Wing
- Improvements to the new Caribou Learning Center on Sweden Street
- New gymnasium bleachers at Caribou High School and Limestone Community School

Construction-in-process of \$14,326,103 in connection with the new school building is included in other assets on the statement of net position. These expenses will be included in capital assets upon completion of the project.

**Debt**

RSU 39 had total outstanding debt of \$1,177,778. This consists of the Caribou High School and Vocational Center energy project as well as the Limestone Community School energy project of converting from oil to a bio-mass wood-chip boiler heating system. At the end of 2019, three years remain on this debt.

In connection with the new school building project, the District also has a bond notes payable for \$52,738,000. The balance is currently included in other liabilities on the Statement of Net Position. As the project nears completion the balance will be included in long-term debt on the Statement of Net Position.

## Eastern Aroostook Regional School Unit #39

### Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2019

#### UNAUDITED

#### General Fund Budgeting Highlights

RSU 39's budget is prepared according to Maine law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. This budget increased by \$1,205,215, (6.8%) from the previous year.

The 2018-2019 school budget and warrant articles were based on the State of Maine's Essential Programs and Services Model. The state subsidy calculation printout is the ED279. The method of state funding is broken down as follows:

1. **Operating Allocations**: Includes weighted amounts for disadvantaged students, weighted amounts for limited English proficient students; targeted funds for assessment, technology and kindergarten through grade two; and adjustments for isolated small schools.
2. **Other Subsidizable Costs**: Includes allocations for approved gifted and talented programs; special education, vocational programs; transportation and approved bus purchases.
3. **Debt Service Costs**: Includes principal and interest payments for school construction bonds.

The method of required local contributions by municipalities in the RSU is based on the 2016/2017 average State property valuations and the mil expectation set by the State of Maine. The required mil rate was set at 8.28 at the time the budget was voted and approved. Additional local funding was used based on the cost-sharing formula that was voted by the Regional Planning Committee. In 2012, the RSU 39 Board of Education reviewed the cost-sharing formula for the district, and voted to continue the method originally set by the Reorganizational Plan.

The District uses a program-based budget. The budgeting system is designed to tightly control program budgets, while providing flexibility for program management. If needed, Maine law permits a school board to transfer up to 5% of funds between the eleven cost centers.

The budget increase for 2018/2019 is attributed to new Debt Service for the Caribou Community School. Although occupancy will not occur until August 2020, debt service payments for the new school began in April 2019. These payments will continue for the next 20 years. Although 95% of the debt service is being funded by the Maine Department of Education, RSU 39 must include the total amount of the debt service for each year in its budget.

Despite the moderate budget increase primarily due to debt service the RSU was able to develop and implement a budget that did not increase costs to the taxpayers without compromising the quality of education for our students for the second year in a row.

Eastern Aroostook Regional School Unit #39

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019

UNAUDITED

**Challenges and Opportunities for the Future**

*Challenges:*

Developing a budget that can deliver the highest quality education while minimizing financial impact to taxpayers in an environment of rising costs and decreased revenues becomes increasingly challenging to achieve. Under new state legislation, district's requirement to pay by 2022-2023 a minimum \$40,000 beginning teacher salary.

Health insurance premiums represent a significant expense to the District. Premiums increased by 8.7% for 2018-2019.

Vocational education programming has been uniquely funded through the Essential Programs and Services (EPS) model. Unlike other programs that are based on the number of students and an estimate of the resources that are needed to provide a basic education, vocational funding has been based on historical spending. The EPS will determine the amount of funding to be allocated for vocational education and will no longer be based on historical expenses. The district must budget in accordance with the amount of funding that will be received.

Some athletic facilities at Caribou High School have outlived their life expectancies and must be upgraded to meet the requirements of the PVC (Penobscot Valley Conference) and MPA (Maine Principals Association). In addition, the parking areas at CHS are in need of replacement. Both of these upgrades will require a large amount of money.

*Opportunities:*

The State Board of Education and the citizens of RSU 39 approved construction of a new Pre-K to Grade 8 community school. Construction began in 2018 with occupancy expected to occur in 2020. This new school will replace three schools with one and is projected to significantly reduce District operating costs.

As part of the new school construction project Hilltop School was turned over to the City of Caribou, Sincock School on South Main Street and the Learning Center (former Intermediate School) on Bennett Drive were demolished to make way for the City's dog park and the new Teague Park, respectively. The Caribou Middle School and Teague Park school will also be demolished in 2020 as part of the project.

Eastern Aroostook Regional School Unit #39

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019

UNAUDITED

**Other**

On June 30, 2019, the Town of Limestone withdrew from RSU 39. As part of the Separation Agreement, all real and personal property associated with the Limestone Community School was turned over to the Town of Limestone. In addition, all outstanding debt for the LCS bio-mass boiler became the responsibility of the Town of Limestone.

RSU 39 has entered into separate servicing agreements with area school districts in an effort to generate revenue for the RSU in the 2019-2020 school years. There is an agreement with MSAD 20 (Fort Fairfield) to share the Superintendent, English Limited Language (ELL) instructor and food service director. The RSU also has agreements with School Union 122 (Woodland, New Sweden and Westmanland) to provide Technology support services.

**Contacting the School District's Financial Management**

This financial report is designed to provide the citizens/taxpayers of Caribou, Limestone and Stockholm as well as all members of the public and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report or additional financial information should be directed to Timothy Doak, Superintendent of Schools, RSU 39, 75 Glenn Street, Caribou, ME 04736 or at (207) 496-6311.

**You may also visit the RSU 39 website at [RSU39.org](http://RSU39.org) for additional information.**

## EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Exhibit A

Statement of Net Position  
As of June 30, 2019ASSETS

## Current assets:

Cash and temporary investments (Note 2)	\$ 1,504,851
Due from governmental agencies	921,061
Other receivables	63,623
Inventories	<u>14,901</u>
	<u>2,504,436</u>

## Noncurrent assets:

Capital assets, non-depreciable (Note 3)	876,960
Capital assets, depreciable, net (Note 3)	<u>9,386,532</u>
	<u>10,263,492</u>

Other assets (Note 4)	<u>56,168,973</u>
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TOTAL ASSETS	<u>68,936,901</u>
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<u>DEFERRED OUTFLOWS OF RESOURCES</u> (Note 6)	<u>47,567</u>
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LIABILITIES

## Current liabilities:

Accounts payable	515,520
Contracts payable	828,743
Accrued interest	20,076
Current portion of long-term debt	<u>378,181</u>
	<u>1,742,520</u>

## Noncurrent liabilities:

Notes payable, net of current portion (Note 5)	799,597
Net pension liability (Note 6)	<u>493,437</u>
	<u>1,293,034</u>

Other liabilities (Note 4)	<u>56,041,490</u>
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TOTAL LIABILITIES	<u>59,077,044</u>
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<u>DEFERRED INFLOWS OF RESOURCES</u> (Note 6)	<u>110,313</u>
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NET POSITION

Net investment in capital assets	9,085,714
Restricted for:	
Special revenue funds	97,098
Capital project	127,483
Unrestricted	<u>486,816</u>

TOTAL NET POSITION	<u>\$ 9,797,111</u>
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*The accompanying notes are an integral part of this financial statement.*

## EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Exhibit B

Statement of Activities  
For the Year Ended June 30, 2019

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Instruction:					
Regular instruction	\$ 7,089,398	\$ -	\$ 652,527	\$ -	\$ (6,436,871)
Special education instruction	2,406,366	-	402,356	-	(2,004,010)
Vocational education	1,474,890	-	37,820	-	(1,437,070)
Adult education	226,368	31,311	84,738	-	(110,319)
Other instruction	741,198	-	259,983	-	(481,215)
Total instruction	<u>11,938,220</u>	<u>31,311</u>	<u>1,437,424</u>	<u>-</u>	<u>(10,469,485)</u>
Support services:					
Student and staff support	1,730,506	-	-	-	(1,730,506)
Nutrition	597,400	51,751	454,128	-	(91,521)
Administration - Office	719,353	-	-	-	(719,353)
Administration - School	922,055	-	-	-	(922,055)
Operation and maintenance of plant	2,563,183	-	-	-	(2,563,183)
Pupil transportation services	1,133,923	270,458	-	-	(863,465)
Interest expense	664,708	-	-	-	(664,708)
Capital outlays	-	-	-	925	925
On-behalf other post-employment benefits	22,884	-	22,884	-	-
On-behalf pension payments	850,046	-	850,046	-	-
Total support services	<u>9,204,058</u>	<u>322,209</u>	<u>1,327,058</u>	<u>925</u>	<u>(7,553,866)</u>
	<u>\$ 21,142,278</u>	<u>\$ 353,520</u>	<u>\$ 2,764,482</u>	<u>\$ 925</u>	<u>(18,023,351)</u>
General revenues:					
Taxes					
Property taxes, levied for general purposes					3,902,474
Property taxes, adult education					85,000
Other local funds					394,813
Federal and state aid not restricted to specific purposes					11,774,959
Tuition/fees/assessments					1,046,851
Rental income					196,767
Other revenues - general fund					135,673
Other revenues - capital project					403,440
Other revenues - adult education					10,962
Subtotal, general revenues					<u>17,950,939</u>
CHANGE IN NET POSITION					(72,412)
NET POSITION - JULY 1, 2018					<u>9,869,523</u>
NET POSITION - JUNE 30, 2019					<u>\$ 9,797,111</u>

*The accompanying notes are an integral part of this financial statement.*

## EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Exhibit C

Balance Sheet  
Governmental Funds  
As of June 30, 2019

	General Fund		School Lunch Program	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
	Operating	Adult Education				
<b>ASSETS</b>						
Cash and temporary investments (Note 2)	\$1,367,199	\$ 21,330	\$ -	\$ -	\$ 116,322	\$ 1,504,851
Restricted cash (Note 4)	-	-	-	41,676,845	-	41,676,845
Due from governmental agencies	667,489	121,492	19,156	-	112,924	921,061
Other receivables	41,049	4,000	-	166,025	18,574	229,648
Inventories	-	-	14,901	-	-	14,901
Due from other funds	173,241	-	-	-	-	173,241
Total assets	\$2,248,978	\$146,822	\$34,057	\$41,842,870	\$ 247,820	\$ 44,520,547
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 441,966	\$ 66,735	\$ -	\$ 2,959,024	\$ 6,819	\$ 3,474,544
Contracts and benefits payable	819,382	9,361	-	-	-	828,743
Due to other funds (Note 8)	-	-	15,026	-	158,215	173,241
	1,261,348	76,096	15,026	2,959,024	165,034	4,476,528
Deferred inflow of resources:						
Pledges receivable (Note 1)	-	-	-	153,825	-	153,825
Fund balances:						
Nonspendable						
Inventory	-	-	14,901	-	-	14,901
Restricted						
Capital project funds	-	-	-	38,730,021	-	38,730,021
Special revenue funds	-	10,182	4,130	-	82,786	97,098
Unrestricted						
Committed for Adult Education	-	60,544	-	-	-	60,544
Assigned for capital projects	135,647	-	-	-	-	135,647
Unassigned	851,983	-	-	-	-	851,983
Total fund balances	987,630	70,726	19,031	38,730,021	82,786	39,890,194
Total liabilities and fund balances	\$2,248,978	\$146,822	\$34,057	\$41,842,870	\$ 247,820	\$ 44,520,547

*The accompanying notes are an integral part of this financial statement.*

## EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balance  
 Governmental Funds  
 For the Year Ended June 30, 2019

	General Fund					Total Governmental Funds
	Operating	Adult Education	School Lunch Program	Capital Projects Fund	Other Governmental Funds	
<b>REVENUES</b>						
Local property taxes	\$ 3,902,474	\$ 85,000	\$ -	\$ -	\$ -	\$ 3,987,474
Other local funds	394,813	-	-	-	-	394,813
Federal and state assistance	11,726,418	244,942	454,128	-	1,241,023	13,666,511
Tuition and fees	1,046,851	31,311	51,751	-	270,458	1,400,371
Rental income	196,767	-	-	-	-	196,767
Donations	-	-	-	108,300	-	108,300
Other	55,304	10,962	5,045	403,440	75,324	550,075
<b>TOTAL REVENUES</b>	<b>17,322,627</b>	<b>372,215</b>	<b>510,924</b>	<b>511,740</b>	<b>1,586,805</b>	<b>20,304,311</b>
<b>EXPENDITURES</b>						
<b>Instruction</b>						
Regular	6,576,826	226,368	-	-	673,758	7,476,952
Special education	2,007,996	-	-	-	398,370	2,406,366
Vocational	1,372,900	18,155	-	-	91,100	1,482,155
Other	584,749	-	-	-	122,604	707,353
<b>Total Instruction</b>	<b>10,542,471</b>	<b>244,523</b>	<b>-</b>	<b>-</b>	<b>1,285,832</b>	<b>12,072,826</b>
<b>Support Services</b>						
Student and staff support	1,728,843	-	-	-	-	1,728,843
Administration - Office	675,783	-	-	-	-	675,783
Administration - Schools	747,617	161,282	-	-	-	908,899
Operation and maintenance of plant	2,254,409	-	-	-	-	2,254,409
Student transportation	944,923	-	-	-	330,419	1,275,342
Food service	30,001	-	563,434	-	-	593,435
Capital projects	266,730	-	-	11,392,754	-	11,659,484
Debt service - principal	364,476	-	-	6,700,000	-	7,064,476
- interest	670,921	-	-	63,486	-	734,407
<b>Total Support Services</b>	<b>7,683,703</b>	<b>161,282</b>	<b>563,434</b>	<b>18,156,240</b>	<b>330,419</b>	<b>26,895,078</b>
<b>TOTAL EXPENDITURES</b>	<b>18,226,174</b>	<b>405,805</b>	<b>563,434</b>	<b>18,156,240</b>	<b>1,616,251</b>	<b>38,967,904</b>
Excess of revenues over expenditures	(903,547)	(33,590)	(52,510)	(17,644,500)	(29,446)	(18,663,593)
<b>Other financing sources (uses)</b>						
Proceeds from bond anticipation note	-	-	-	2,500,000	-	2,500,000
Proceeds from bonds	-	-	-	52,738,000	-	52,738,000
Transfer (to) from other funds	15,862	-	47,022	(40,000)	(22,884)	-
	15,862	-	47,022	55,198,000	(22,884)	55,238,000
Net change in fund balance	(887,685)	(33,590)	(5,488)	37,553,500	(52,330)	36,574,407
Fund Balance - July 1, 2018	1,875,315	104,316	24,519	1,176,521	135,116	3,315,787
Fund Balance - June 30, 2019	\$ 987,630	\$ 70,726	\$ 19,031	\$ 38,730,021	\$ 82,786	\$ 39,890,194

*The accompanying notes are an integral part of this financial statement.*

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Exhibit E

Reconciliation of the Governmental Funds Balance Sheet  
with the Statement of Net Position  
June 30, 2019

Total fund balance - governmental funds (Exhibit C)		\$ 39,890,194
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds:		
The cost of capital assets is	\$ 24,967,359	
Accumulated depreciation is	(14,703,867)	
Work-in-process, new school building	<u>14,326,103</u>	
		24,589,595
Deferred outflows in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Deferred outflows of resources		47,567
Deferred inflows in governmental activities are not due and payable from current financial resources and, therefore, are not reported in the funds:		
Deferred inflow of resources		(110,313)
Pledges receivable are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds:		
Pledges receivable for new school building		153,825
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:		
Bonds, new school building	(52,738,000)	
Accrued interest, bonds	(344,466)	
Notes payable	(1,177,778)	
Accrued interest on notes payable	(20,076)	
Net pension liability	<u>(493,437)</u>	
		<u>(54,773,757)</u>
Total net position - governmental activities (Exhibit A)		<u>\$ 9,797,111</u>

*The accompanying notes are an integral part of this financial statement.*

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Exhibit F

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures  
and Changes in Fund Balances with the Statement of Activities  
For the Year Ended June 30, 2019

Total net change in fund balances - governmental funds (Exhibit D) \$ 36,574,407

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

Expenses paid prior to the period due are accounted for under the non-allocated method and are, therefore, reported as expenditures in the current period in governmental funds. However, for district-wide activities, these amounts are recorded as prepaid expenses and are expensed when the item is consumed.

(Decrease) in prepaid expense (135,371)

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceed depreciation expense in the period:

Capital outlays	\$ 910,909
Depreciation expense	(626,009)
Construction-in-process, new school building	<u>11,456,223</u>

11,741,123

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

7,064,476

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

6,213

The principal amount of loan proceeds is reported as revenue in the governmental fund. This is reported on the statement of net position as an increase in debt and does not appear on the statement of activities.

(55,238,000)

Some revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds:

(Decrease) in pledges receivable, deferred in fund statements (107,375)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Decrease in deferred pension liability	107,768
Change in deferred inflows/outflows of resources	<u>(85,653)</u>

Change in net position of governmental activities (Exhibit B) \$ (72,412)

*The accompanying notes are an integral part of this financial statement.*

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Exhibit G

Statement of Fiduciary Net Position  
June 30, 2019

	<u>Private-Purpose Trusts</u>		Agency
	<u>Caribou</u>	<u>Limestone</u>	<u>Fund</u>
<b>ASSETS</b>			
Cash	\$ 39	\$ -	\$ 246,926
Investments	<u>140,484</u>	<u>31,578</u>	<u>-</u>
Total Assets	<u>140,523</u>	<u>31,578</u>	<u>246,926</u>
<b>LIABILITIES</b>			
Due to students	<u>-</u>	<u>-</u>	<u>\$ 246,926</u>
<b>NET POSITION</b>			
Held in trust for scholarships	<u>\$ 140,523</u>	<u>\$ 31,578</u>	

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Statement of Changes in Fiduciary Net Position  
For the Year Ended June 30, 2019

	<u>Private-Purpose Trusts</u>	
	<u>Caribou</u>	<u>Limestone</u>
<b>ADDITIONS</b>		
Interest and dividends	\$ 2,382	\$ 74
<b>DEDUCTIONS</b>		
Scholarships awarded	<u>6,000</u>	<u>500</u>
CHANGE IN NET POSITION	(3,618)	(426)
NET POSITION - JULY 1, 2018	<u>144,141</u>	<u>32,004</u>
NET POSITION - JUNE 30, 2019	<u>\$ 140,523</u>	<u>\$ 31,578</u>

*The accompanying notes are an integral part of this financial statement.*

## EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Notes to the Financial Statements  
June 30, 2019

### (1) SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

The School Board of the Eastern Aroostook Regional School Unit #39, a seven-member group, is the level of government that has governing responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Eastern Aroostook Regional School Unit #39. The Board receives funding from local, state and federal governmental sources and must comply with the associated requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The accounting policies of the Eastern Aroostook Regional School Unit #39 substantially comply with the rules prescribed by the Maine State Board of Education. These accounting policies conform to generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

The Eastern Aroostook Regional School Unit #39's basic financial statements consist of district-wide statements, including a statement of net position and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

**District-wide Financial Statements** – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net position presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements** – During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level.

#### Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets and account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The various funds are summarized by type in the financial statements.

The emphasis in fund financial statements is on the major funds. Non-major funds by category are summarized into a single column. GASB No. 34 sets forth minimum criteria based on the size of the funds for the determination of major funds. District management may also choose to designate additional funds as major based on other criteria.

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Notes to the Financial Statements  
June 30, 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued)

The following funds are reported as major by the District:

General Fund - The general fund accounts for financial resources in use for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use.

Food Service Fund - This is a special revenue fund that accounts for the resources received and expended for the District's School Lunch Program.

Capital Projects Fund - This fund accounts for revenues and expenditures related to the new school building.

Special Revenue Fund - This fund accounts for programs that are not for general operations such as federal and state funded programs.

Private Purpose Trusts - These funds account for funds donated for scholarships.

Agency Fund - This fund accounts for student activities. A financial statement has been separately issued for student activities.

Fund Balance Classification

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable Fund Balance

The nonspendable balance includes amounts that are not in spendable form or are contractually required to be maintained intact. The District reports food service inventory as nonspendable.

Restricted Fund Balance

The District's restricted fund balance includes amounts that can only be used for specific purposes and includes grant funds and capital projects funds.

Unrestricted Committed

The District's Board of Directors has the authority to commit fund balance amounts for specific purposes.

Unrestricted Assigned Fund Balance

The District's Board of Directors has the authority to assign fund balance for a specific purpose, but is neither restricted or committed. The District does not report any assigned fund balance.

Unrestricted Unassigned

The District's unassigned fund balance includes amounts that have not been assigned to other funds and have not been restricted, committed, or assigned to specific purposes within the General Fund.

When restricted and other fund balances resources are available for use, it is the District's policy to use restricted resources first, followed by committed, assigned, and unassigned amounts, respectively.

Measurement Focus

District-wide Financial Statements – The district-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included in the statement of net position.

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Notes to the Financial Statements  
June 30, 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the district-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting.

Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue and in the presentation of expenses versus expenditures.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the School District, available means expected to be received within 60 days of fiscal year-end.

Nonexchange transactions, in that the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as inventory.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Notes to the Financial Statements  
June 30, 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data

The general operating and adult education funds are legally required to be budgeted and appropriated. The major document prepared is the budget report, which separates these funds by function and estimated appropriation needed to fund each function. The budget report demonstrates a need for existing or increased tax rates. This budget is approved by the School Board of the Eastern Aroostook Regional School Unit #39 and may be amended during the year if projected increases or decreases in revenues or expenditures are identified by the District. The amounts reported as the original budget amounts in the budgetary statements (Schedule 1) reflect the amounts in the legally adopted budget. Changes, if any, are reflected in the final budget column. The budgetary statement presents comparisons of legally adopted budgets with actual results on a budgetary basis. A reconciliation of differences in fund balance is presented on Schedule 2.

Cash and Cash Equivalents

To improve cash management, all cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual funds are maintained through the District's accounting records to allow proper segregation of cash for each fund. Deposits with a maturity of three months or less are included in cash and cash equivalents for financial reporting purposes.

Prepaid Expense

Payments made benefiting future periods under the governmental fund basis are recorded under the non-allocated method and are currently expensed as paid. Payments made to vendors for services that will benefit periods beyond June 30, 2019, are recorded as prepaid items using the consumption method for district-wide activities. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

Inventories

School Lunch Program inventories are valued at cost. Cost is determined on the first-in, first-out basis.

Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair value as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's useful life are not.

All reported capital assets except land and construction-in-progress, if applicable, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	10-50 years
Furniture and Equipment	5-20 years
Vehicles	8 years

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Notes to the Financial Statements  
June 30, 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources until then. The District currently reports only pension-related items as deferred outflows of resources.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources until then. The District currently reports only pension-related items as deferred inflows of resources in the statement of net position. The District also reports pledges receivable for the new school building as deferred inflows on the fund balance sheet.

Accounts Payable, Accrued Expenses and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements.

Other Post-employment Benefit (OPEB)

The District participates in the Retiree Group Life Insurance administered by the Maine Public Employees Retirement System. Employers in the Plan are required to disclose the on-behalf payments. Per statute, the State of Maine is responsible for the OPEB liability associated with the Plan. On-behalf payments of \$22,884 are included in Exhibit B of the financial statements.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

(2) CASH AND TEMPORARY INVESTMENTS

Deposits with financial institutions are subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may be lost. The District's investment policy is to invest in regional banks and federal securities and to insure the funds to as great a degree as possible.

As of June 30, 2019, the District's deposits with financial institutions of \$43,535,091 were fully insured or collateralized with U.S. Government Agency securities held in the District's name. Restricted cash is for authorized expenditures for the new school building.

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Notes to the Financial Statements  
June 30, 2019

(3) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital assets not being depreciated:				
Land	\$ <u>651,927</u>	\$ <u>382,659</u>	\$ <u>157,626</u>	\$ <u>876,960</u>
Other capital assets:				
Buildings	17,922,638	362,225	1,084,163	17,200,700
Land and building improvements	1,863,445	-	-	1,863,445
Vehicles	3,437,267	281,954	143,043	3,576,178
Equipment	<u>1,359,309</u>	<u>266,730</u>	<u>175,963</u>	<u>1,450,076</u>
	<u>24,582,659</u>	<u>910,909</u>	<u>1,403,169</u>	<u>24,090,399</u>
Less accumulated depreciation for:				
Buildings	10,071,260	318,224	868,720	9,520,764
Land and building improvements	1,820,368	23,389	70,946	1,772,811
Vehicles	2,394,244	218,072	143,044	2,469,272
Equipment	<u>970,105</u>	<u>66,324</u>	<u>95,409</u>	<u>941,020</u>
	<u>15,255,977</u>	<u>626,009</u>	<u>1,178,119</u>	<u>14,703,867</u>
Governmental activities capital assets, net	\$ <u>9,978,609</u>	\$ <u>667,559</u>	\$ <u>382,676</u>	\$ <u>10,263,492</u>

Depreciation expense was charged to governmental functions as follows:

Regular instruction	\$ 11,957
Vocational instruction	6,282
Other instruction	31,320
Office administration	40,820
School administration services	11,456
Operation and maintenance of plant	399,794
Transportation	120,415
School lunch services	<u>3,965</u>
Total	<u>\$626,009</u>

(4) CONSTRUCTION OF NEW SCHOOL BUILDING

The Maine State Board of Education granted site approval and concept approval on October 12, 2016 and December 14, 2016, respectively, for the construction of a new PreK-8 Elementary/Middle school building for the District. The citizens of the three member communities of Caribou, Limestone, and Stockholm collectively approved the new school building project by referendum vote on February 7, 2018.

Financial information for the capital project is presented in a separate column in the Fund Financial Statements. All assets and liabilities associated with the capital project are included in the statement of net position as other assets and other liabilities with the difference of \$127,483 included in restricted net position.

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Notes to the Financial Statements  
June 30, 2019

(4) CONSTRUCTION OF NEW SCHOOL BUILDING (Continued)

Other assets are related to the new school building project and as of June 30, 2019, consist of the following:

Restricted cash	\$41,676,845
Pledges receivable	166,025
Construction-in-process	<u>14,326,103</u>
	<u>\$56,168,973</u>

Other liabilities are related to the new school building project and as of June 30, 2019, consist of the following:

Accounts payable	\$ 2,959,024
Accrued interest	344,466
Bonds payable	<u>52,738,000</u>
	<u>\$56,041,490</u>

On November 1, 2018, the District issued a \$38,500,000 bond with the Maine Municipal Bond Bank for expenses related to the new school building. The bond bears interest at 2.22% - 4.227% and is due to be paid in full by November 1, 2038. On May 23, 2019, the District issued a \$14,238,000 bond with the Maine Municipal Bond Bank. The bond bears interest at 1.72% - 3.764% and is due to be paid in full by November 1, 2039. The project has a budget of \$53,000,000 of which approximately 95% will be paid by the State. The new school building has a projected completion date of August 2020.

(5) LONG-TERM DEBT

As of June 30, 2019, long-term debt consisted of the following:

3.75% Note payable semi-annually at \$152,697 principal and interest through January 2022.	\$ 858,943
3.66% Note payable semi-annually at \$56,588 principal and interest through January 2022.	<u>318,835</u>
	<u>\$1,177,778</u>

Long-term debt activity during the year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
<u>Governmental Activities</u>					
Note payable	\$1,124,632	\$ -	\$265,689	\$ 858,943	\$275,745
Note payable	<u>417,622</u>	<u>-</u>	<u>98,787</u>	<u>318,835</u>	<u>102,436</u>
	<u>\$1,542,254</u>	<u>\$ -</u>	<u>\$364,476</u>	<u>\$1,177,778</u>	<u>\$378,181</u>

As of June 30, 2019, long-term debt matures as follows:

Year Ending June 30,	Principal	Interest
2020	\$ 378,181	\$40,390
2021	392,402	26,169
2022	<u>407,195</u>	<u>11,413</u>
	<u>\$1,177,778</u>	<u>\$77,972</u>

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Notes to the Financial Statements  
June 30, 2019

(6) EMPLOYEES' RETIREMENT PLAN

MAINEPERS

Plan Description

The District contributes to the State Employee and Teacher (SET) Plan administered by Maine Public Employees Retirement System (MainePERS), which is a multiple employer cost sharing defined benefit pension plan with a special funding situation. As of June 30, 2018, there were 236 employers participating in the plan. The State of Maine is also a non-employer contributing entity because the State pays the initial unfunded actuarial liability on behalf of teachers, while school districts contribute the normal cost for their teacher members, calculated actuarially. As of June 30, 2019, the District had 195 employees enrolled in the plan.

Pension Benefits

Benefit terms are established in Maine statute. The plan provides defined benefits based on members' average final compensation and service credit earned as of retirement. Vesting occurs upon the earning of five years of service credit. For teacher members, normal retirement age is 60, 62, or 65. The monthly benefit of members who retire before normal retirement age by having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below the normal retirement age at retirement. MainePERS also provides disability and death benefits which are established by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest (annual rate is currently 2.4%), credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights.

Retirement benefits are funded by contributions from members and employers and by earnings on investments. Disability and death benefits are funded by employer normal cost contributions and by investment earnings. Member and employer contribution rates are each a percentage of applicable member compensation. Member contribution rates are defined by law or Board rule. The District's participants contribute 7.65% of their wages to the plan. The District also contributes to fund future retirement benefits for employees paid with federal funds.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2019, the District reported a liability of \$493,437 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the District's proportion was .0366%, which was a decrease from its proportion of .0414% as measured as of June 30, 2017.

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Notes to the Financial Statements  
June 30, 2019

(6) EMPLOYEES' RETIREMENT PLAN (Continued)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources  
(Continued)

For the year ended June 30, 2019, the District recognized pension expense of \$354,125. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$31,038	\$ -
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,458	46,167
Differences between expected and actual experience	15,071	-
Difference between projected and actual investment earnings on pension plan investments	<u>-</u>	<u>64,146</u>
Total	<u>\$47,567</u>	<u>\$110,313</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 17,885
2020	(17,735)
2021	(45,666)
2022	(17,233)

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation rate	2.75%
Salary increases	2.75% to 14.5% per year
Investment rate of return	6.75% per annum, compounded annually
Cost of living benefit increases	2.20%

Mortality rates were based on the RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females; for all recipients of disability benefits, the RP2014 Total Dataset Disabled Annuitant Mortality Table for males and females was used.

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Notes to the Financial Statements  
June 30, 2019

(6) EMPLOYEES' RETIREMENT PLAN (Continued)

Actuarial Assumptions (Continued)

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, 2018, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equities	30.0%	6.0%
US Government	7.5%	2.3%
Private Equity	15.0%	7.6%
Real Assets:		
Real Estate	10.0%	5.2%
Infrastructure	10.0%	5.3%
Natural Resources	5.0%	5.0%
Traditional Credit	7.5%	3.0%
Alternative Credit	5.0%	4.2%
Diversifiers	10.0%	5.9%

Discount Rate

The discount rate used to measure the collective pension liability was 6.75% for 2018. 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 the 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.

The following table shows how the collective net pension liability as of June 30, 2018 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate.

	<u>Current</u>	
<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
<u>5.75%</u>	<u>6.75%</u>	<u>7.75%</u>
\$911,872	\$493,437	\$144,949

MainePERS issues a publicly available financial report that includes financial statements and required supplementary information that may be obtained on the Internet at [www.maineopers.org](http://www.maineopers.org) or at the MainePERS office in Augusta.

All other employees are covered under the Social Security System.

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Notes to the Financial Statements  
June 30, 2019

(7) COMPENSATED ABSENCES

Full-time employees, except for cooks, are allowed to accrue fifteen days of sick leave each year to a maximum of 125 days. Cooks are allowed to accrue fifteen days of sick leave each year to a maximum of 75 days. Any sick days accruing over the limit are paid currently each year at \$25, except for cooks who are paid \$18 per day. Sick days do not vest under the District's policy and, accordingly, employees can be paid sick leave only when sick. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not included in the financial statements.

Teachers, educational technicians and cooks do not receive paid vacations but are paid only for the number of days they are required to work each year. Maintenance employees, administrative, bus drivers and secretaries are granted vacation leave in varying amounts. In the event of termination, an employee is reimbursed for any unused accumulated leave. The School has no liability for unused vacation pay since all vacation leave is used or lost if not taken each year. Vacation pay is charged to operations when taken by the employees of the District.

(8) INTERFUND BALANCES AND TRANSFERS

During the year ended June 30, 2019, the District made a transfer from its general fund for \$47,022 to its school lunch program to provide funding for operations during the year. This is an ordinary transfer that is part of the budget on an annual basis.

Many of the federal grants are funded on a reimbursement basis resulting in the need to spend general fund cash and wait for reimbursement from the Maine Department of Education. As of June 30, 2019, the federal grant funds and the school lunch program were indebted to the general fund in the amount of \$158,215 and \$15,026, respectively, which will be repaid at which time the related reimbursements are received from the State of Maine. These reimbursements are expected to occur early in the next fiscal year.

(9) RISK MANAGEMENT

The District is exposed to various risks of loss related to school officials; school board liability; torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases insurance for all risks of loss. There have been no significant reductions in insurance coverage during the year.

(10) LIMESTONE COMMUNITY SCHOOL

As of July 1, 2019, the Town of Limestone has established the Limestone Municipal School District after withdrawing from the Eastern Aroostook Regional School Unit #39. As part of the separation agreement, all real and personal property, along with the associated debt, for the Limestone Community School has been returned to the Town of Limestone. The value of the capital assets, net of depreciation is approximately \$2,750,000 and the associated debt had a balance due of \$318,835 at June 30, 2019. In addition, a portion of the undesignated fund balance will be allocated to the Town of Limestone.

(11) SUBSEQUENT EVENTS

Management has reviewed subsequent events through December 30, 2019, the date that these financial statements were available to be issued and determined that no additional adjustments or disclosures are required in order for the financial statements to be fairly stated.

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Schedule 1

Budgetary Comparison Schedule for the General Fund and Adult Education  
For the Year Ended June 30, 2019

	General Fund			Adult Education		
	Budgeted Amounts		Actual Budgetary Basis	Budgeted Amounts		Actual Budgetary Basis
	Original	Final		Original	Final	
<b>REVENUES</b>						
Local property taxes	\$ 3,902,474	\$ 3,902,474	\$ 3,902,474	\$ 85,000	\$ 85,000	\$ 85,000
Other local funds	394,813	394,813	394,813	-	-	-
Federal and state assistance	11,988,212	11,988,212	11,726,418	53,230	53,230	48,542
Tuition and fees	921,978	921,978	1,046,851	29,500	29,500	26,135
Rental income	206,000	206,000	196,767	-	-	-
Transfer from special revenue	-	-	22,884	-	-	-
Other	53,000	53,000	95,304	8,000	8,000	10,962
Total revenues and other sources	<u>17,466,477</u>	<u>17,466,477</u>	<u>17,385,511</u>	<u>175,730</u>	<u>175,730</u>	<u>170,639</u>
<b>EXPENDITURES</b>						
Instruction						
Regular	6,823,098	6,823,098	6,576,826	40,811	40,811	25,915
Special education	2,007,715	2,007,715	2,007,996	-	-	-
Applied technology	1,502,378	1,502,378	1,372,900	26,400	26,400	18,155
Other	619,457	619,457	584,749	-	-	-
Total instruction	<u>10,952,648</u>	<u>10,952,648</u>	<u>10,542,471</u>	<u>67,211</u>	<u>67,211</u>	<u>44,070</u>
Support Services						
Food service	111,984	111,984	77,023	-	-	-
Student and staff support	1,742,540	1,742,540	1,728,843	-	-	-
Administration - Office	727,808	727,808	675,783	-	-	-
Administration - Schools	750,633	750,633	747,617	197,435	197,435	161,282
Operation and maintenance	2,727,030	2,727,030	2,672,979	-	-	-
Student transportation	1,073,834	1,073,834	944,923	-	-	-
Debt service interest	900,000	900,000	616,827	-	-	-
Total support services	<u>8,033,829</u>	<u>8,033,829</u>	<u>7,463,995</u>	<u>197,435</u>	<u>197,435</u>	<u>161,282</u>
Total expenditures and other uses	<u>18,986,477</u>	<u>18,986,477</u>	<u>18,006,466</u>	<u>264,646</u>	<u>264,646</u>	<u>205,352</u>
Excess (deficiency) of revenues over expenditures	(1,520,000)	(1,520,000)	(620,955)	(88,916)	(88,916)	(34,713)
Fund Balance - July 1, 2018	<u>1,520,000</u>	<u>1,520,000</u>	<u>1,472,938</u>	<u>88,916</u>	<u>88,916</u>	<u>72,129</u>
Fund Balance - June 30, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 851,983</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,416</u>

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Schedule 2

Reconciliation of the Governmental Funds Balance Sheet and Statement of Revenues,  
Expenditures and Changes in Fund Balances with the Budgetary Comparison Schedule  
For the General Fund  
For the Year Ended June 30, 2019

Total fund balance - budgetary basis (Schedule 1)	\$ 851,983
Adjustments to reconcile to fund balance on a modified accrual basis (Exhibit C):	
Assigned fund balance (Exhibit C)	<u>135,647</u>
Total fund balance - governmental funds (Exhibit C)	<u>\$ 987,630</u>
Amounts reported for the governmental funds statement of revenues, expenditures and changes in fund balance (Exhibit D) differed with the budgetary basis of accounting as presented on Schedule 1 as follows:	
Excess of revenues over expenditures - budgetary basis (Schedule 1)	\$ (620,955)
Adjustments to reconcile net change in fund balance budgetary basis to net change in fund balance - governmental funds (Exhibit D):	
Expended from assigned for capital projects	<u>(266,730)</u>
Total net change in fund balance - governmental funds (Exhibit D)	<u>\$ (887,685)</u>

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Schedule 3

Schedule of the District's Proportionate Share of the Net Pension Liability  
For the Last Five Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.036566%	0.041390%	0.041088%	0.038282%	0.043255%
District's proportionate share of the net pension liability	\$ 493,437	\$ 601,205	\$ 725,886	\$ 516,852	\$ 467,297
State's proportionate share of the net pension liability associated with the District	<u>8,473,004</u>	<u>9,902,824</u>	<u>12,327,640</u>	<u>10,065,698</u>	<u>8,287,006</u>
Total	<u>\$8,966,441</u>	<u>\$10,504,029</u>	<u>\$13,053,526</u>	<u>\$10,582,550</u>	<u>\$8,754,303</u>
District's covered-employee payroll	\$8,162,736	\$ 8,739,575	\$ 8,676,036	\$ 8,937,315	\$8,828,447
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	6.04%	6.88%	8.37%	5.78%	5.29%
Plan fiduciary net position as a percentage of the total pension liability	82.90%	80.80%	76.20%	81.20%	84.04%

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Schedule 4

Schedule of the District's Contributions  
For the Last Five Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 376,229	\$ 347,216	\$ 342,684	\$ 299,285	\$ 298,262
Contributions in relation to the contractually required contribution	<u>376,228</u>	<u>347,216</u>	<u>342,676</u>	<u>299,286</u>	<u>298,262</u>
Contribution deficiency (excess)	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 8</u>	<u>\$ (1)</u>	<u>\$ -</u>
District's covered-employee payroll	\$8,162,736	\$8,739,575	\$8,676,036	\$8,937,315	\$8,828,447
Contributions as a percentage of covered-employee payroll	4.61%	3.97%	3.95%	3.35%	3.38%

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Notes to Schedules 3 and 4  
June 30, 2019

NOTE 1 – VALUATION DATE

Only fiscal year 2018 through 2014 are reported. The amounts presented have a measurement date as of June 30, 2018. The District will continue to present information until a full ten-year trend is compiled.

NOTE 2 – BENEFIT CHANGES

There were no benefit changes for District employees in the employees' retirement plan.

NOTE 3 – CHANGE IN ASSUMPTIONS

The change in discount rate from 6.875% to 6.75% was the only change in assumption for the 2018 valuation.

NOTE 4 – METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll over in effect under amortization period then statutory and constitutional requirements
Asset valuation method	One-third of the investment return that is different from the actuarial assumption for investment return
Investment rate of return	6.75% compounded annually for 2018 6.875% compounded annually for 2017 6.875% compounded annually for 2016 7.125% compounded annually for 2015 7.125% compounded annually for 2014
Retirement age	60, 62, or 65, depending on years of creditable service at certain dates
Mortality	RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females

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## Independent Auditors' 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*

To the School Board of the  
Eastern Aroostook Regional School Unit #39

We have audited, in accordance with the 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 the Eastern Aroostook Regional School Unit #39 as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 30, 2019.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Eastern Aroostook Regional School Unit #39'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 the Eastern Aroostook Regional School Unit #39's internal control. Accordingly, we do not express an opinion on the effectiveness of the Eastern Aroostook Regional School Unit #39'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Eastern Aroostook Regional School Unit #39'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*.

To the School Board of the  
Eastern Aroostook Regional School Unit #39

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.

*Felch & Company LLC*

December 30, 2019

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## Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the School Board of the  
Eastern Aroostook Regional School Unit #39

### Report on Compliance for Each Major Federal Program

We have audited the Eastern Aroostook Regional School Unit #39's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The Eastern Aroostook Regional School Unit #39's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Eastern Aroostook Regional School Unit #39's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Eastern Aroostook Regional School Unit #39's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Eastern Aroostook Regional School Unit #39's compliance with those requirements.

### Opinion on Each Major Federal Program

In our opinion, the Eastern Aroostook Regional School Unit #39 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

To the School Board of the  
Eastern Aroostook Regional School Unit #39

Report on Internal Control Over Compliance

Management of the Eastern Aroostook Regional School Unit #39 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Eastern Aroostook Regional School Unit #39's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Eastern Aroostook Regional School Unit #39's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Felch & Company LLC*

December 30, 2019

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## Independent Auditors' Report on Compliance with the Requirements of the Maine School Finance Act

To the School Board of the  
Eastern Aroostook Regional School Unit #39

We have audited the financial statements of the Eastern Aroostook Regional School Unit #39, as of and for the year ended June 30, 2019, and have issued our report thereon dated December 30, 2019.

The management of the Eastern Aroostook Regional School Unit #39 is responsible for the District's compliance with laws and regulations. In connection with the examination referred to above, we selected and tested transactions and records to determine the District's compliance with laws and regulations, noncompliance with which could have a material effect on the financial statements of the District.

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

1. A determination of whether or not the District has complied with budget content requirements pursuant to section 15693.
2. A determination of whether or not the District has complied with transfer limitations between budget cost centers pursuant to section 1485.
3. A determination of whether or not the District has exceeded its authority to expend funds.
4. A determination of whether or not the annual financial data submitted to the Department is correct.
5. A determination as to whether or not the District was in compliance with applicable provisions of the Essential Programs and Services Funding Act.

The results of our tests indicate that for the items tested, the Eastern Aroostook Regional School Unit #39 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, the District was not in compliance with Maine laws and regulations.

*Felch & Company LLC*

December 30, 2019



EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2019

Federal Grantor/ Pass-through Grantor/ <u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Disburse- ments</u>
<u>U.S. Department of Education</u>			
Passed through State Department of Education:			
Special Education - State Grants Individuals with Disabilities Act - Part B - Local Entitlement	84.027	013-05A-3046-12	\$ 372,382
Special Education - Preschool Grants IDEA Part B - Ages 3-5 619 Grants	84.173	013-05A-6247-23	<u>3,105</u>
Subtotal - Special Education Cluster			375,487
NCLB Title I Grants to Local Educational Agencies - Part A, Basic, Concentration, and Targeted Groups - Targeted Groups - Disadvantaged IASA	84.010	013-05A-3107-13	593,022
Vocational Education - Basic Grants to States Title II - Part C - Basic Grants	84.048	013-05A-3030-08	32,550
Vocational Education - Basic Grants to States Target Area	84.048	013-05A-3040-08	5,270
Rural and Low Income Grants	84.358	013-05A-3305-03	25,545
Improving Teacher Quality Grants	84.367	013-05A-3042-11	74,960
Student Support and Academic Enrichment	84.424	013-05A-3345-11	5,775
Adult Education - State Administered Basic Grant Program - Subsidies expended by District	84.002	013-05A-6296-64	59,504
Adult Education - State Administered Basic Grant Program - Subsidies passed through to subrecipients	84.002	013-05A-6296-64	116,839
Passed through the University of Maine at Farmington:			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334S140018	<u>39,415</u>
<b>Subtotal - U.S. Department of Education</b>			<b><u>1,328,367</u></b>
<u>U.S. Department of Agriculture</u>			
Passed through State Department of Education:			
School Breakfast Program	10.553	013-05A-3014-05	128,430
Lunch Section 4	10.555	013-05A-3022-05	41,370
Lunch Section 11	10.555	013-05A-3024-05	242,594
Performance Based Reimbursement	10.555	013-05A-3125-05	7,522
Summer Food Service Program for Children	10.559	013-05A-3016-05	3,939
Summer Food Administration	10.559	013-05A-3018-05	<u>409</u>
Subtotal - Child Nutrition Cluster			424,264
Fresh Fruit and Vegetables Program	10.582	013-05A-3028-05	20,871
Food Distribution/Food Donation Program (Note B)	10.560	013-05A-6134-05	<u>38,924</u>
<b>Subtotal - U.S. Department of Agriculture</b>			<b><u>484,059</u></b>
Total			<b><u>\$ 1,812,426</u></b>

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2019

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Eastern Aroostook Regional School Unit #39 (the District) and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation, of the basic financial statements.

NOTE B – BASIS OF PRESENTATION

Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal financial assistance programs administered by the District, an entity as defined in the notes to the financial statements.

Pass-Through Programs

Where the District receives funds from a government entity other than the federal government (pass-through), the funds are accumulated based upon the Catalog of Federal Domestic Assistance (CFDA) number advised by the pass-through grantor.

Non-monetary Federal Programs

The District is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements, termed “non-monetary programs”. During the fiscal year ended June 30, 2019, the District received and disbursed \$38,924 of commodities in the School Lunch Program. These commodities are reported in the schedule at fair market value.

NOTE C – INDIRECT COSTS

The District has elected not to use the 10% *de minimis* indirect cost rate allowed under the Uniform Guidance.

NOTE D – MATCHING COSTS

Matching costs that represent the District’s share of certain program costs, if any, are not included in the Schedule of Expenditures of Federal Awards.

EASTERN AROOSTOOK REGIONAL SCHOOL UNIT #39

Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2019

There were no material audit findings reported for the year ended June 30, 2018 that require follow-up in the June 30, 2019 report.